HKEX
香港交易所

September 2021

Consultation Paper

Special Purpose Acquisition Companies

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HOW TO RESPOND TO THIS CONSULTATION PAPER

The Exchange, a wholly-owned subsidiary of HKEX, invites written comments on the matter discussed in this paper, or comments on related matters that might have an impact upon the matter discussed in this paper, on or before **31 October 2021**.

To submit written comments please complete the questionnaire that can be accessed via the link and QR code below.

Link: https://hkex.syd1.qualtrics.com/jfe/form/SV_6EfRhPSSwjCjxps

QR code:

Our submission enquiry number is (852) 2840 3844.

Respondents are reminded that we will publish responses on a named basis in the intended consultation conclusions. If you do not wish your name to be disclosed to members of the public, please state so when responding to this paper. Our policy on handling personal data is set out in Schedule A.

Submissions received during the consultation period by **31 October 2021** will be taken into account before the Exchange decides upon any appropriate further action and a consultation conclusions paper will be published in due course.

DISCLAIMER

EXECUTIVE SUMMARY

Purpose

1. This consultation paper solicits market feedback on proposals to amend the Listing Rules to create a listing regime for SPACs in Hong Kong. Definitions of the terms used in this paper are set out in the "Definitions" section below (see page 101).

Background

Reasons for Establishing a SPAC Listing Regime

2. Listing via a SPAC is often perceived by De-SPAC Targets and their founders to be an attractive alternative to a traditional IPO as doing so potentially results in a shorter time to listing, greater price certainty and flexibility in structuring a De-SPAC Transaction that is in their best interests. During our preliminary discussions with stakeholders, some stated 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.

3. IPO funds raised by US-listed SPACs dramatically rose last year, from US$13.6 billion in 2019 to US$83.4 billion in 2020.[1] In the first half of 2021, US-listed SPAC IPO proceeds exceeded the whole of 2020 amounting to US$111 billion from 358 IPOs (see paragraphs 45 and 46). This surge in SPAC listings has been accompanied by increased regulatory scrutiny from the SEC, which is believed to have led to a recent dampening of market sentiment towards SPACs (see paragraphs 57 to 62).

4. Hong Kong, as an international financial centre, competes with US stock exchanges for listings from Greater China and South East Asia.[2] In the last three years, 12 Greater China and South East Asian companies have listed in the US via a De-SPAC Transaction (see paragraphs 107 to 110).

5. The introduction of a SPAC listing regime in Hong Kong would be in line with the Exchange's strategy to remain a competitive international financial centre that can continue to attract Greater China and South East Asia companies to list in Hong Kong that may otherwise choose to list elsewhere via De-SPAC Transactions.

6. Both the UK and Singapore have recently issued consultations to refine or introduce their own SPAC regimes (see paragraphs 64 to 68).

Need for Safeguards

7. The Exchange has noted the SEC's tightened regulatory scrutiny of SPAC listings in the US. The SEC has, on multiple occasions, highlighted issues particular to SPAC listings, including concerns over shareholder protection and disclosure standards (see paragraphs 57 to 63). These issues are common to SPAC structures wherever they

[1] SPAC Analytics, retrieved on 16 April 2021.

[2] 98.9% of Hong Kong listed issuers are based in Greater China or Asia, whose market capitalisation constitutes 96.1% of Hong Kong's total market capitalisation. Source: Bloomberg, retrieved on 31 August 2021.

are listed, and so are also of concern to us.

8. We must also bear in mind the major differences between US and Hong Kong markets. There is proportionately higher retail market participation in Hong Kong than in the US. Also, the US regulatory regime places more emphasis upon investors' ability to take private litigation action to curb abusive behaviour. Therefore, a straight forward transplantation of the US regime to Hong Kong may not be appropriate or conducive to the maintenance of market quality in Hong Kong.

Our Proposed Approach

9. An important cornerstone of Hong Kong's competitive position as an international financial centre is the reputation of its markets. Our reputation for high quality listings and stable secondary trading attracts more first-class issuers to list here for the premium valuations our market brings and the deep liquidity provided by investors. This reputation depends upon the protections provided by Hong Kong's regulatory framework, including the Listing Rules. To maintain this element to our competitiveness, it is crucial that safeguards are imposed that not only maintain but enhance this reputation for quality.

10. Many commentators have noted that the recent US SPAC boom has led to an over-supply of SPACs seeking business combinations with a limited pool of De-SPAC Targets. A similar over-supply of SPAC listings in Hong Kong would likely lead to pressure on SPAC Promoters to seek sub-standard De-SPAC Transactions that would weaken rather than enhance the investment opportunities available to investors and make it less likely that high quality listings would follow.

11. On this basis, we propose an approach that would help ensure only SPACs with experienced and reputable SPAC Promoters are listed that seek good quality De-SPAC Targets. Consequently, a number of proposals set out in this paper (summarised in Table 1 below) are designed to provide a high entry point for SPAC listing applicants and De-SPAC Targets.

12. We acknowledge that our proposals would result in a SPAC listing regime that is more stringent than that of the US. However, as has been demonstrated through our implementation of the 2018 listing reforms that enabled the listings of Biotech Companies, issuers with WVR structures and secondary "homecomings", this approach can result in very successful commercial and regulatory outcomes.

13. To assist us in drawing up a viable framework, we welcome market participants' views on our proposals.

Proposals

14. Our key proposals are summarised in Table 1 below and set out in full in Chapter 5. Draft Listing Rules to implement these proposals form Schedule D to this paper.

Table 1: Key Proposals to Establish a SPAC Listing Regime

SUBJECT	KEY PROPOSALS
Prior to De-SPAC Transaction	
Investor Suitability	• The subscription and trading of a SPAC's securities will be restricted to Professional Investors only, with additional approval, monitoring and enforcement measures to ensure compliance with such requirements • A SPAC must distribute each of SPAC Shares and SPAC Warrants to a minimum of 75 Professional Investors, of which 30 must be Institutional Professional Investors
Trading Arrangements	• Separate trading of SPAC Shares and SPAC Warrants from initial offering date, with additional measures in place to mitigate the risk of volatility associated with the trading of SPAC Warrants
Dilution cap	• A cap on the Promoter Shares at 20% of the total number of shares the SPAC has in issue as at initial offering date, with further issuances of Promoter Shares up to 10% subject to the Successor Company meeting set performance targets (i.e. earn-outs) [3] • Prohibition from issuing warrants that entitle the holder to purchase more than a third of a share upon their exercise • Prohibition from issuing: (a) warrants in aggregate (i.e. including SPAC Warrants plus Promoter Warrants) that, if exercised, would result in more than 30% of the number of shares in issue at the time such warrants are issued; and (b) Promoter Warrants that, if exercised, would result in more than 10% of the number of shares in issue at the time such warrants are issued
SPAC Promoters	• SPAC Promoters must meet suitability and eligibility requirements, including the requirement for each SPAC to have at least one SPAC Promoter 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

[3] So a total cap on the issue of Promoter Shares, in aggregate, of 30% of the shares the SPAC has in issue as at the initial offering date.

SUBJECT	KEY PROPOSALS
	(b) at least 10% of the Promoter Shares • Any material change in SPAC Promoters would require approval by a special resolution of shareholders (excluding the SPAC Promoter and close associates). A redemption right must be made available to shareholders voting against such material change
Fund Raising Size	• The funds expected to be raised by a SPAC from its initial offering must be at least HK$1 billion
De-SPAC Transaction	
Application of New Listing Requirements in full	• A Successor Company will need to meet all new listing requirements (including IPO Sponsor engagement to conduct due diligence, minimum market capitalisation requirements and financial eligibility tests)
Independent Third Party Investment	• Mandatory outside independent PIPE investment which must: (a) constitute at least 25% of the expected market capitalisation of the Successor Company (or at least 15%, if the Successor Company's expected market capitalisation at listing is over HK$1.5 billion); and (b) result in at least one asset management firm or fund (with assets under management/fund size of at least HK$1 billion) beneficially owning at least 5% of the issued shares of the Successor Company as at the date of the Successor Company's listing
Shareholder Vote on De-SPAC Transactions	• A De-SPAC Transaction must be made conditional on approval by the SPAC's shareholders at a general meeting. A shareholder with a material interest[4] in the transaction must abstain from voting, and if the De-SPAC Transaction results in a change of control, any outgoing controlling shareholders of the SPAC and their close associates must not vote in favour of the De-SPAC Transaction • SPAC shareholders would only be able to redeem SPAC Shares voted against a De-SPAC Transaction
Forward Looking Information	• Application of existing requirements on any forward looking statements in the listing document for a De-

[4] This would mean that SPAC Promoter(s) and their close associates must abstain from voting.

SUBJECT	KEY PROPOSALS
	SPAC Transaction to the same standard as that required for an IPO (including the requirement for reports from the reporting accountant and IPO Sponsor on such statements)
Open Market in Successor Company' Shares	• A Successor Company must ensure an adequate spread of holders of its shares of at least 100 shareholders, rather than the minimum 300 shareholder requirement normally required for a new listing

Request for comment

15. We invite public comments on our proposals which are still at a formative stage. The Exchange has formed no view on whether a SPAC regime should be implemented in Hong Kong and wishes to use this paper to facilitate public discussion and gather views. We will publish any final Rule amendments and details regarding implementation in a conclusions paper after we have considered the responses. When providing your comments please give reasons for your views. We also welcome any alternative suggestions regarding the conditions and safeguards we have set out in this paper.

Proposed timetable and next steps

16. Responses to this consultation paper should be submitted to us by **31 October 2021.** The Exchange will take into account these responses and comments before deciding upon any further appropriate action and publishing a conclusions paper.

CHAPTER 1: BACKGROUND

What are SPACs?

17. A SPAC is a type of shell company that raises funds through an IPO for the purpose of conducting a business combination[5] with an operating company within a pre-defined time period after listing (typically two years). SPACs do not have business operations and do not have assets other than: (a) the proceeds from their IPO[6] and (b) the funds raised from SPAC Promoters to pay for the SPAC's expenses (see paragraphs 27 and 42).[7]

18. The following describes the practice in the US (where SPACs have gained prominence in recent years) unless stated otherwise.

SPAC Promoters

19. SPACs are typically formed by professional managers who have private equity, corporate finance and/or relevant industry experience (referred to in this paper as SPAC Promoters). SPAC Investors rely on SPAC Promoters' ability to identify a suitable target and negotiate terms for the De-SPAC Transaction that will provide them with a return on their investment.[8]

SPAC Units

20. SPACs commonly offer SPAC Units to IPO investors consisting of a SPAC Share and a SPAC Warrant (or fraction of a SPAC Warrant) stapled together.[9] Each SPAC Unit is issued at an IPO price of US$10.00.

21. SPAC Units begin to trade on a stock exchange at IPO. Normally on the 52nd day following the date of the SPAC's prospectus, SPAC Units can be severed into SPAC Shares and SPAC Warrants and are traded separately under new stock tickers.[10] Separation of SPAC Units is usually at the discretion of the unitholder and is not automatic.[11]

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[5] A merger, share exchange, asset acquisition, share purchase, reorganisation or other form of transaction hereafter referred to as a "De-SPAC Transaction".

[6] SPAC IPO proceeds are typically ring-fenced separately in escrow from the funds raised through Promoter Warrants.

[7] SEC, What You Need to Know About SPACs – Updated Investor Bulletin, 25 May 2021.

[8] Skadden, Arps, Slate, Meagher & Flom LLP, SPACs: Reshaping M&A and IPOs for European Companies, 10 February 2021.

[9] A stapled unit may contain a fraction of a warrant (with each warrant carrying the right to purchase one SPAC Share) or one warrant with the right to purchase a fraction of a SPAC Share.

[10] Kramer Levin Naftalis & Frankel LLP, A SPAC Primer, 1 March 2021; and footnote 7.

[11] A unitholder is required to instruct their broker to contact the SPAC's transfer agent to separate their SPAC Units into SPAC Shares and SPAC Warrants (see, for example, Form S-1 Registration Statement of Primavera Capital Acquisition Corporation dated 16 January 2021, "Description of Securities", page 118). Fractional SPAC Warrants will not be issued upon separation of SPAC Units and only whole SPAC Warrants will trade. Accordingly, for SPACs that issue a fraction of a warrant per SPAC Unit,

SPAC Warrants

22. The purpose of including SPAC Warrants in the SPAC Units is to compensate IPO investors for the lack of return on their investment until a De-SPAC Transaction occurs, hence they are commonly viewed as a form of "sweetener" to investors in the SPAC IPO.[12] If warrants were not included, institutional investors may, instead, prefer to participate in the PIPE fundraising that typically accompanies the De-SPAC Transaction, when there is more certainty that a De-SPAC Transaction will complete.

23. A SPAC Warrant gives the holder the right to purchase a SPAC Share (or a fraction of a SPAC Share) at a set exercise price at a set time. When issued, a SPAC Warrant is usually priced "out of the money", with an exercise price (typically US$11.50 per share) greater than the IPO price of a SPAC Unit.

24. SPAC Warrants that have been separated from SPAC Units, are traded on an exchange under their own stock ticker after separation until a De-SPAC Transaction.

25. Upon completion of a De-SPAC Transaction, depending on how the De-SPAC Transaction is structured, SPAC Warrants either survive without a change in their terms or are cancelled and replaced by warrants issued by the Successor Company with identical terms.

26. SPAC Warrants usually become exercisable on the later of 30 days after the completion of a De-SPAC Transaction[13] or 12 months from the IPO closing[14], and expire five years after the De-SPAC Transaction. It is common for SPACs to also have the option to force holders to exercise their SPAC Warrants if the shares of the SPAC / Successor Company trade above a prescribed trading price.[15]

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investors must purchase a sufficient number of SPAC Units to be able to receive or trade whole SPAC Warrants.

[12] IPO investors who decide (after SPAC Units have been severed into SPAC Shares and SPAC Warrants) to sell or redeem their SPAC Shares prior to a De-SPAC Transaction are compensated for the period of their investment between the SPAC IPO and the date of sale. See Joint Study, page 24 and footnote 49.

[13] The evaluation of whether SPAC Warrants are liabilities under Accounting Standards Codification (ASC) 480-10-25-8 of US Generally Accepted Accounting Principles depends on whether the shares that are issued on exercise of the warrants are redeemable. As exercising SPAC Warrants after a De-SPAC Transaction results in the issue of the unredeemable shares of a Successor Company, stipulating that SPAC Warrants cannot be exercised until 30 days after a De-SPAC Transaction helps ensure they are not considered liabilities under ASC 480-10-25-8 (see also paragraph 32) (See Deloitte, Accounting and SEC Reporting Considerations for SPAC Transactions, last updated 14 September 2021).

[14] This enables a Successor Company to file a short-form registration statement Form S-3 with the SEC to register the issuance of shares upon exercise of SPAC Warrants. This is permitted on condition that an issuer has been a reporting company for at least 12 months. Issuers generally prefer filing a Form S-3 to filing a Form S-1 (i.e. the registration statement required for an IPO), as the level of disclosure required and the vetting process are simpler (See SPAC Insider, SEC Raises Questions on SPACs Use of Form S-3 Registration Statements, 24 February 2020, by Carol Anne Huff, Partner, Arnold and Porter Kaye Scholer LLP).

[15] Paul, Weiss, Rifkind, Wharton & Garrison LLP, Market Trends 2020/21: Special Purpose Acquisition Companies (SPACs), "Other Key Market Trends", 18 May 2021. All the Sampled Greater China SPACs included this option in the terms of the SPAC Warrants that they issued. Five of these SPACs set a

SPAC IPO Funds

27. Typically, proceeds raised in a SPAC offering (after fees and expenses in connection with the offering) are held in an interest bearing trust account until the De-SPAC Transaction is completed, or until the SPAC liquidates.

De-SPAC Transaction

28. After a SPAC is listed, the SPAC Promoter will aim to identify a De-SPAC Target and enter negotiations with its management on the terms of a De-SPAC Transaction.

29. Upon the successful completion of negotiations, the SPAC will enter into a letter of intent / term sheet on the terms of the De-SPAC Transaction and seek approval of those terms from the boards of both the SPAC and the De-SPAC Target.

30. Normally the SPAC will also be required to seek the approval of SPAC shareholders for the De-SPAC Transaction at a general meeting of shareholders.[16] The SPAC must send shareholders a Proxy Statement or, if the transaction involves a share exchange, an S-4 registration statement (which includes a Proxy Statement and a prospectus) to seek this approval. Prior to its circulation, the SPAC is required to file a draft of this document with the SEC for vetting and clear any SEC comments.

31. If the De-SPAC Transaction is approved by SPAC shareholders, the company resulting from the transaction becomes a listed issuer in place of the SPAC. The stock ticker for the SPAC changes to reflect the name of this issuer. Usually, the De-SPAC Transaction will result in the owners of the De-SPAC Target becoming the new issuer's controlling shareholders.

Redemption Option

32. When seeking their approval of a proposed De-SPAC Transaction, a SPAC will give SPAC shareholders the option of redeeming their shareholdings in the SPAC and receiving a pro rata amount of the funds held in the SPAC's trust account.[17]

33. Redemption is not contingent upon a SPAC shareholder voting against the De-SPAC Transaction. A SPAC shareholder may vote <u>for</u> the De-SPAC Transaction but still choose to redeem their SPAC shareholdings.

34. The Joint Study found that average and median redemption rates among its 2019-20 study cohort was 58% and 73%, respectively. A quarter of the cohort saw redemption rates of over 95%. The Joint Study also found that, on average, 92% of institutional investors in SPACs (98% median) divest themselves of their SPAC shareholdings prior to the closure of the De-SPAC Transaction, either through redemption or through

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trading price threshold of US$16.5; four of them set a price threshold of US$18 and one set a price threshold of US$24.

[16] The approval of the De-SPAC Target's shareholders may also be necessary. This will depend upon the rights provided to their shareholders in the De-SPAC Target's constitution. The SPAC may have entered into agreements with key De-SPAC Target shareholders to vote in favour of the De-SPAC Transaction.

[17] This normally results in SPAC Investors receiving US$10 per share held.

selling their shares in the market.[18]

PIPE transaction

35. The redemption option given to SPAC Investors and high actual redemption rates (see paragraph directly above) creates uncertainty as to the amount of cash that will be available to meet the terms of a De-SPAC Transaction. Many SPACs (83% according to the Joint Study) mitigate this concern by issuing new securities to institutional accredited investors in a PIPE transaction that is contingent upon the closing of the De-SPAC Transaction.

36. The SPAC and the De-SPAC Target usually prepare an investor presentation for potential PIPE investors who agree to maintain the confidentiality of the information. The PIPE investors and the SPAC will then enter into a subscription agreement for the PIPE transaction that is signed concurrently with the De-SPAC Transaction agreement and announced once signed.[19]

37. PIPE investors normally subscribe for SPAC Shares (without warrants)[20] at the SPAC IPO price (i.e. US$10 dollars per share). Funds raised in a PIPE transaction normally amount to approximately 40%, on average, of all outside funds raised by the SPAC (IPO plus PIPE transaction) for the De-SPAC Transaction.[21] The Joint Study found, for a third of the SPACs in its study cohort, the majority of overall funds raised by a SPAC were from the PIPE transaction.

Failure to Complete De-SPAC Transaction with Lifespan of a SPAC

38. The prospectus that a SPAC issues at IPO will include a deadline (normally 24 months) within which the SPAC aims to complete a De-SPAC Transaction. If it fails to complete a De-SPAC Transaction within that period, it must either: seek approval from SPAC shareholders for an extension of the life of the SPAC (usually one year); or else liquidate. If a SPAC is liquidated, investors will receive a pro rata amount of the funds held in the SPAC's trust account and their SPAC Warrants will become worthless.[22] SPAC Promoters will lose the value of their own investment in the SPAC upon liquidation (see paragraph 42 below).

SPAC Promoter Incentives

Promoter Shares

39. The SPAC Promoter will pay a minimal amount, usually US$25,000, for Promoter Shares, which, at closing of the IPO, would normally represent approximately 20% of the SPAC's outstanding shares. These shares are usually designated as separate

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[18] Joint Study, pages 16 and 17. An institutional investor is defined as a filer of an SEC 13F quarterly report.

[19] Morgan, Lewis & Bockius LLP, Going Public through a SPAC: Current Issues for SPAC Sponsors and Private Companies, 2 December 2020.

[20] Mayer Brown LLP, Top 10 Practice Tips: PIPE Transactions by SPACs, 25 October 2020.

[21] Based on the average of PIPE transactions conducted by 18 SPACs advised by Credit Suisse Group AG that announced a De-SPAC Transaction between April 2020 and May 2021 and the findings of the Joint Study, page 15.

[22] This normally results in SPAC Investors receiving US$10 per share held.

"class B" shares that will convert into SPAC Shares at the time of the De-SPAC Transaction, on a one-for-one basis, subject to stock splits, stock dividends and other adjustments. This allocation of Promoter Shares is known as "the Promote" and incentivizes the SPAC Promoter to successfully complete a De-SPAC Transaction.

40. There has been a recent trend in the US, as SPAC listings have become more popular, for SPACs to distinguish themselves from each other through Promotes that aim to align the SPAC Promoter's interests with those of SPAC Investors more closely. For example, such a Promote (or part of it) may be contingent upon the performance of the Successor Company and only "earn out" if the share price of that company reaches certain pre-defined thresholds within pre-defined periods.

41. The rights of Promoter Shares are generally identical to that of SPAC Shares (including a right to vote on a De-SPAC Transaction). However, Promoter Shares are subject to contractual transfer restrictions and do not carry a right to share redemption or participate in a SPAC's liquidation (see paragraphs 32 and 38).[23] Their resale either needs to be registered under the Securities Act or be made in reliance on an exemption from registration.[24]

Promoter Warrants

42. A SPAC Promoter will normally purchase Promoter Warrants as part of a unit (commonly referred to as a 'private unit' or a 'private placement unit') or on a standalone basis (see paragraph 300) of a value that is enough to cover the underwriting fees for the SPAC IPO, other offering expenses and the expenses needed to search for and identify a De-SPAC Target. Commentators state that, in total, the funds placed "at risk" by a SPAC Promoter in this way usually amount to between 2.3% and 3.0% of the gross IPO proceeds.

43. Promoter Warrants are purchased by the SPAC Promoter in a private placement that closes concurrently with the closing of the IPO. Promoter Warrants are classified as "restricted securities" and so may not be resold in the market. In addition, the SPAC Promoter usually agrees not to transfer or sell the Promoter Warrants until 30 days after the completion of a De-SPAC Transaction.

44. Promoter Warrants often contain more favourable terms than SPAC Warrants. For example, (a) they are often not subject to the forced exercise of the warrant if the shares of the SPAC / Successor Company trades above a prescribed price (see paragraph 26) [25] and (b) they may be exercised on a cashless basis (i.e. paying the exercise price by surrendering Promoter Warrants for a certain number of SPAC Shares). However, the period during which Promoter Warrants are exercisable and convertible to shares are generally the same as for SPAC Warrants (see paragraph 26).

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[23] In some cases, holders of Promoter Shares are also restricted from proposing or voting in favour of an amendment to the SPAC's articles in relation to public shareholders' redemption rights.

[24] See the first reference in footnote 10.

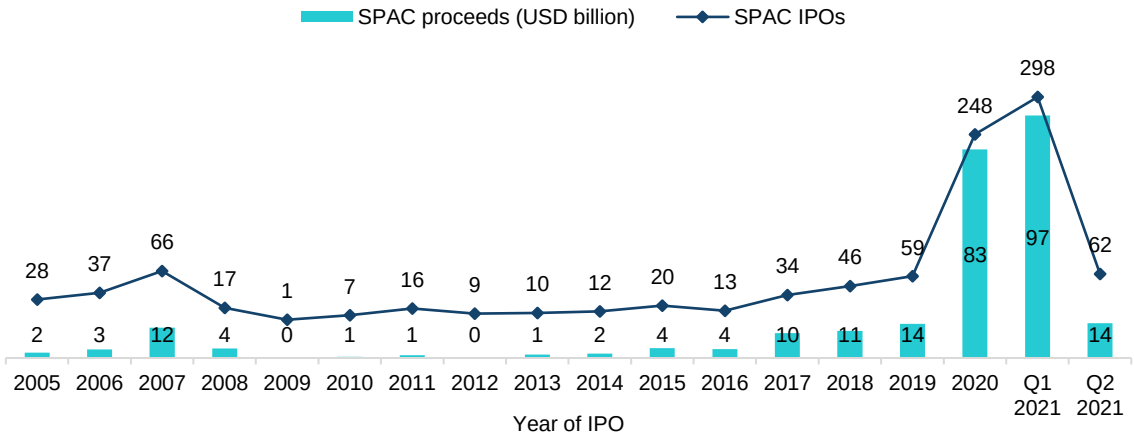
[25] Where a SPAC issues a notice of redemption to warrant holders, they can exercise SPAC Warrants prior to the scheduled redemption date. The SPAC may also have an option to require warrantholders to exercise warrants on a cashless basis.

Recent Proliferation of SPAC Issuance

US markets

45. Issuance of US-listed SPACs rose between 2017 and 2019 and then dramatically surged in 2020. The proceeds raised from SPAC IPOs increased from US$10.0 billion in 2017 to US$13.6 billion in 2019 and then grew to US$83.4 billion in 2020.[26] In the first half of 2021, US-listed SPAC IPO proceeds exceeded the whole of 2020 amounting to US$111 billion from 358 IPOs (see Figure 1).

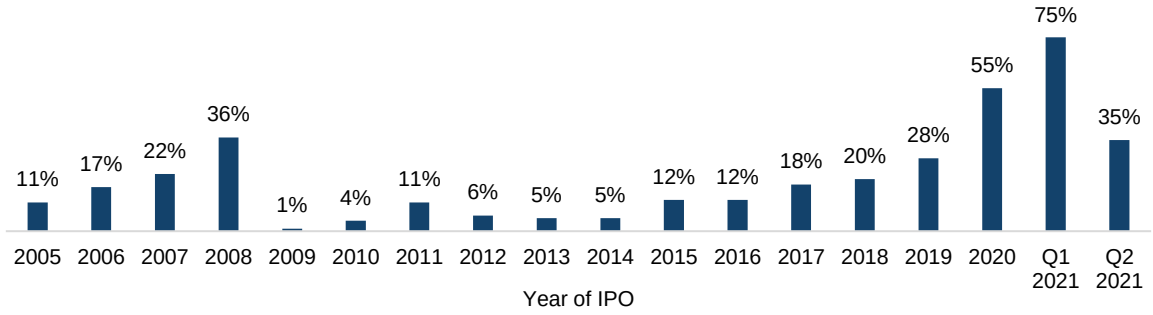
Figure 1: US SPAC IPO Proceeds and Number of IPOs from 2005 to 1H 2021



(Sources: PricewaterhouseCoopers[27] and Ernst and Young[28], retrieved on 13 July 2021; and Dealogic, retrieved on15 April 2021)

46. Between 2005 and 2019 (inclusive), SPACs represented an average of 14% of all US IPOs per year (by number of IPOs), rising to 55% in 2020 and to 62% in the first half of 2021 (see Figure 2).

Figure 2: SPACs as a % of all US IPOs (by Number of Offerings) from 2005 to 1H 2021



(Source: PricehousewaterCoopers[29], retrieved on 13 July 2021; and SPAC Analytics, retrieved on 16 April 2021)

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[26] SPAC Analytics, retrieved on 16 April 2021.

[27] PricewaterhouseCoopers, Q2 2021 Capital Markets Watch.

[28] Ernst and Young, Global IPO Trends: Q2 2021.

[29] PricewaterhouseCoopers, Q2 2021 Capital Markets Watch.

Other markets

47. In 2020, there were only two SPAC listings in the UK and two on other European exchanges. However, in the first half of 2021 two SPACs listed in the UK and 15 listed in other parts of Europe.[30] Although the number of SPAC IPOs in Europe was far below those in the US, European exchanges have reported an increasing interest in SPAC listings in 2021. Deutsche Börse was reported to be expecting at least a dozen SPAC IPOs in 2021 as a whole.[31] Some investment banks have stated that they expect over 30 SPAC IPOs in Europe in the second half of 2021, with up to 15 of them in the UK after the potential easing of rules for SPACs (see paragraph 67).[32]

48. There has also been a growing appetite for SPAC IPOs in Asia, although few countries in the region accept the listing of SPACs (Malaysia and South Korea).The number of SPACs with Asia-based SPAC Promoters grew from zero in 2016 to eight in 2020. These SPACs raised approximately US$1.5 billion during the year 2020.[33]

49. US listed SPACs have also increasingly sought out De-SPAC Targets in Asia, including Greater China (see paragraph 109).

Possible reasons for the recent increase in SPAC issuance

Market volatility

50. SPAC listings represented a large percentage of all US IPOs in 2008 and 2020 (36% and 46% respectively) [34]. These are years that experienced periods of high market volatility caused by global events (i.e. the global financial crisis and the COVID-19 pandemic). Some market commentators have suggested that business disruptions, record unemployment and unpredictable market conditions may incentivize companies to raise capital more quickly to maintain solvency and liquidity.

51. SPACs may have been a more attractive option than traditional IPOs during these times as they are perceived to provide greater price certainty and faster access to funding (see Chapter 3 for a discussion of the potential benefits of SPACs in more detail).

Investor appetite

52. It has also been suggested that lockdowns associated with the COVID-19 pandemic have prompted a surge in retail trading activity and increased investors' appetite for non-traditional and early-stage businesses. These businesses include green technology, sports betting or electric vehicle manufacturers that usually lack publicly-traded comparables and have less established business models than IPO applicants.[35]

53. Commentators have said that it may be more appropriate for these types of businesses

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[30] S&P Global Market Intelligence, retrieved on 29 July 2021.

[31] S&P Global Market Intelligence, European stock exchanges expect SPAC surge in 2021, but not at US scale, 29 March 2021.

[32] Reuters, Britain eases SPAC rules as global watchdog puts sector on watch, 28 July 2021.

[33] Dealogic, retrieved on 26 March 2021.

[34] See Figure 2.

[35] For example electric carmaker Fisker Inc and online betting platform Draftkings Inc.

to list via a SPAC than a traditional IPO. This is because expert SPAC Promoters may be better at assigning a fair value to these businesses than public investors in an IPO (see also paragraph 104).

Possible reasons for the decrease in SPAC issuance in Q2 2021

Regulatory scrutiny and litigation risks

54. The end of the SPAC boom in Q1 2021 coincided with increased SEC scrutiny of US SPAC activities in April 2021 (see paragraphs 59 to 60). It has been suggested that this exposed SPACs to higher litigation risks creating a disincentive to list SPACs.

Private investment

55. The increase in SPAC issuance in 2020 and up to Q1 2021 resulted in a growing pipeline of SPACs seeking De-SPAC Targets. It has been suggested that the rising valuations of De-SPAC Targets prompted PIPE investors to put off their investment in an attempt to negotiate more favourable terms in De-SPAC Transactions. This waning PIPE funding is also said to have contributed to a slowdown in US SPAC IPOs in Q2 2021.

56. It is also suggested that the illiquidity of PIPE investments (subject to the length of a De-SPAC Transaction and the lock-up period) and poor share performance of SPACs (see paragraphs 77 to 78) were possible deterrents to SPAC fundraising in recent months.

Recent Regulatory Developments

US

57. In the US, the surge in SPAC listings has been accompanied by increased regulatory scrutiny from the SEC.[36] Commentators have stated that this has led to a dampening of market sentiment towards SPACs.[37]

58. On 10 March 2021, the SEC's OIEA cautioned investors not to make investment decisions related to SPACs based solely on celebrity involvement.[38]

59. A month later, on 8 April 2021, the Acting Director of the SEC's Division of Corporation Finance made a public statement on the forward-looking information included in the filings and disclosures by SPACs.[39] The SEC noted the claim that one advantage of SPACs over traditional IPOs, in the US, is that SPACs can use a "safe harbour" provided by the US Private Securities Litigation Reform Act to protect them from subsequent private litigation liability if they include forward-looking statements in their SEC filings for a De-SPAC Transaction. The SEC said that such claims were:

"…overstated at best, and potentially seriously misleading at worst. Indeed, in some

[36] SEC, SPACs, IPOs and Liability Risk under the Securities Laws, 8 April 2021, by John Coates (Acting Director, Division of Corporation Finance).

[37] Financial Times, A reckoning for SPACs: will regulators deflate the boom?, 4 May 2021

[38] SEC, Celebrity Involvement with SPACs – Investor Alert, 10 March 2021.

[39] See footnote 36.

ways, liability risks for those involved are higher, not lower, than in conventional IPOs, due in particular to the potential conflicts of interest in the SPAC structure."

60. Soon afterwards, on 12 April 2021, the SEC published a staff statement on accounting and reporting considerations for warrants issued by SPACs.[40] The Office of the Chief Accountant's concluded that, based on the fact pattern of the terms of warrants issued by a SPAC, they should be classified as a liability measured at fair value, under US GAAP guidance, rather than as equity.

61. On 25 May 2021, the OIEA updated its Investor Bulletin on "What You Need to Know About SPACs" to educate investors about investing in SPACs, including the financial interests and motivations of the SPAC Promoters and related persons.[41]

62. The next day, the Chair of the SEC testified before a sub-committee meeting of the US House of Representatives. He noted the Joint Study's conclusions that SPAC Promotes generate significant dilution and costs and said that he had asked his staff to consider what recommendations they would make to the SEC for possible rules or guidance in this area. He also stated that the SEC would also be closely looking at each SPAC stage to ensure that investors are being protected.[42]

63. On 13 July 2021, the SEC announced charges against a SPAC, the SPAC Promoter, the De-SPAC Target and their respective CEOs with respect to misleading statements made in an investor presentation and SEC filings of a proposed De-SPAC Transaction.[43] The Chair of the SEC stated in a press release that:

"This case illustrates risks inherent to SPAC transactions, as those who stand to earn significant profits from a SPAC merger may conduct inadequate due diligence and mislead investors."

Singapore

64. The SGX published its "Consultation Paper on Proposed Listing Framework for Special Purpose Acquisition Companies" on 31 March 2021,[44] The SGX Consultation Paper sought feedback from the public on its proposal to introduce a primary listing framework for SPACs to list on SGX's Mainboard with possible safeguards for minority investors.

65. SGX stated that it had issued the consultation given market developments in the US SPAC listings in recent years and the potential merger and acquisition opportunities in the Asia Pacific region. It said that it had received renewed and increasing market

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[40] SEC, Staff Statement on Accounting and Reporting Considerations for Warrants Issued by Special Purpose Acquisition Companies, 12 April 2021, by John Coates (Acting Director, Division of Corporation Finance) and Paul Munter (Acting Chief Accountant).

[41] See footnote 7.

[42] SEC, Testimony Before the Subcommittee on Financial Services and General Government, U.S. House Appropriations Committee, 26 May 2021 by Chair Gary Gensler.

[43] SEC, SEC Charges SPAC, Sponsor, Merger Target and CEOs for Misleading Disclosures Ahead of Proposed Business Combination, 13 July 2021.

[44] SGX, Consultation Paper – Proposed Listing Framework for Special Purpose Acquisition Companies, 31 March 2021.

interest in the introduction of SPACs to the Singapore capital market and believed that SPACs may generate benefits to capital market participants and become a viable alternative to traditional IPOs for fund raising in Singapore and the region.

66. On 2 September 2021, SGX published its responses to comments on the SGX Consultation Paper. The rules in respect of its SPAC regime took effect on 3 September 2021. In the "Possible Safeguards" section of this paper, we include a comparison to SGX's SPAC regime for each safeguard we propose.

UK

67. On 30 April 2021, the UK FCA published proposed changes to its listing rules on SPACs.[45] The UK Consultation Paper stated that the UK FCA's aim is to provide an alternative route to market for SPACs demonstrating higher levels of investor protection. The UK FCA stated this should mitigate risks to a sufficient extent that it would not generally need to suspend listing at the point a potential acquisition target is identified - the main difference between the current US and UK SPAC regimes.

68. On 27 July 2021, the UK FCA published its conclusions to the UK Consultation Paper. The revised SPAC rules and guidance took effect on 10 August 2021. The "Possible Safeguards" section of this paper includes a comparison to UK revised rules on SPACs for each safeguard we propose.

[45] UK FCA, Investor protection measures for special purpose acquisition companies: Proposed changes to the Listing Rules, 30 April 2021.

CHAPTER 2: SPAC PERFORMANCE

69. This Chapter examines the performance of SPACs in other markets and how this compares to the performance of traditional IPOs.

De-SPAC Rate

70. The De-SPAC rate (i.e. the percentage of SPACs completing acquisitions) has been high in the US. As of 12 July 2021, of the 113 SPACs that listed in the US between 2015 and 2018 (and so have at least the typical two-year lifespan of a SPAC), 102 (90%) have completed acquisitions.[46]

Table 2: Status of SPACs listed between 2015 and 2021* (inclusive)

		De-SPAC Transaction:		
Year	**Total Number of IPOs in Year**	**Announced since IPO**	**Completed since IPO**	**Liquidated since IPO**
2015	20	0	17	3
2016	13	0	11	2
2017	34	0	31	3
2018	46	2	43	1
2019	59	12	42	1
2020	252	96	56	0
2021*	366	42	1	0
TOTALS	**790**	**152**	**201**	**10**

** Data up to 12 July 2021*
(Source: SPACInsider, retrieved on 12 July 2021)

71. SPAC issuers listed in the US during the years 2015 through to 2018 (inclusive of both years) took 22 months on average to complete De-SPAC Transactions.[47]

72. As of 12 July 2021, only a small proportion (8%) of SPACs listed in the US from 2015 to 2018 redeemed their outstanding public shares and liquidated because of a failure to consummate a business merger or acquisition within their lifespan.[48]

[46] SPACInsider, retrieved on 12 July 2021.
[47] See footnote 33.
[48] See footnote 46.

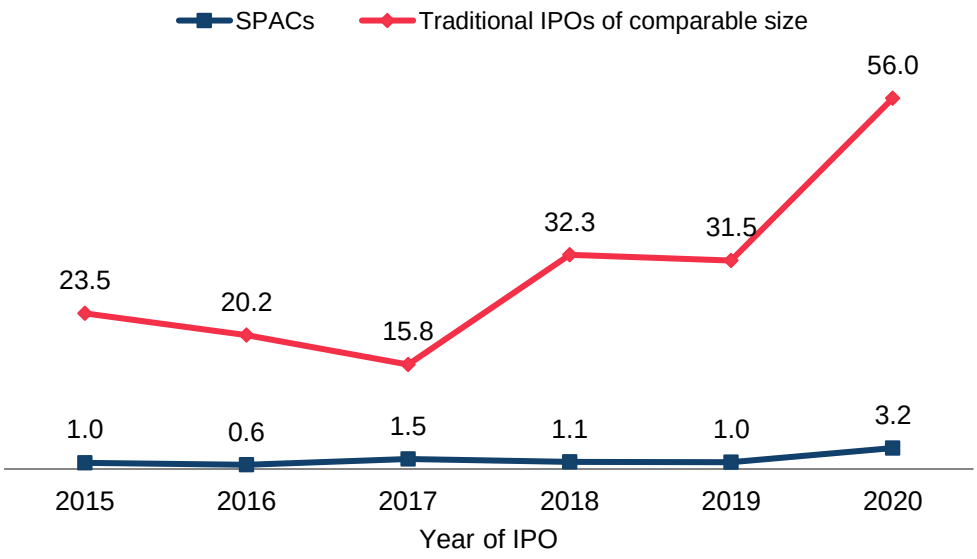
Performance Prior to De-SPAC

73. SPAC Share price movements are reasonably stable before a De-SPAC Transaction. Few SPACs post strong positive or negative returns in the pre-announcement stage, with an average IPO-to-date return of less than 10% just prior to the announcement of a De-SPAC Transaction.[49]

74. SPACs in general lagged behind their traditional IPO counterparts in terms of post-IPO share price performance. Traditional IPOs listed in the US between 2015 and 2020 (inclusive), of a size comparable[50] to most Successor Companies listed by SPACs, showed an average premium of 25.15% one month after their IPO.[51] In contrast, SPACs listed in the US during the same period showed a far lower average first-month return of 2.32% since the date of IPO (see Figure 3).[52]

75. The under-performance of SPACs is explained by their nature as a cash company with no business operations, whose share price performance is unaffected by factors such as fluctuation in the performance of an industry sector and its own financial position and prospects.

Figure 3: Average IPO-to-first-month return (%) of SPACs and traditional IPOs listed between 2015 and 2020



(Source: Dealogic and Bloomberg, retrieved on 26 March 2021)

76. The slightly positive returns on SPAC IPOs before the De-SPAC Transaction may be attributable to the "downside protection" offered by SPAC IPOs where investors have the right to redeem the shares in their SPAC Units before the De-SPAC Transaction.

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[49] Nasdaq Economic Research, A Record Pace for SPACs, 21 January 2021.

[50] IPOs with gross proceeds between USD 100 million and USD 4 billion.

[51] Bloomberg, retrieved on 26 March 2021.

[52] See footnote 33.

Post De-SPAC Performance

77. The Joint Study shows that post-merger SPAC price performance is poorer than traditional IPO performance in general. Of the 47 US-listed SPACs that merged between January 2019 and June 2020 (inclusive), their post-merger three-month returns[53] were -2.9% on average, which underperformed the Renaissance Capital IPO Index (which tracks share price performance of companies in the US for two years post-IPO) by 13.1 percentage points over the same period.

78. Of the US-listed SPACs that successfully completed acquisitions in 2020, the median post-acquisition six-month excess return, compared to S&P 500 Index returns, was negative 27 percentage points, with the highest and lowest returns of 135 percentage points above and 108 percentage points below S&P 500 Index returns respectively, demonstrating a wide range of performance outcomes among SPACs of all sizes.[54]

Types of SPAC Promoter that Produce Higher Returns

79. According to the Joint Study, SPACs with "high quality" SPAC Promoters (see paragraph below for definition) produced better post-completion returns as compared to other SPACs. Table 3 shows the discrepancy identified by this study between "high quality" and "non-high quality" SPAC Promoters of the 47 US-listed SPACs that merged between January 2019 and June 2020 (inclusive) in terms of their post-merger average returns.

80. "High quality" SPAC Promoters refer to those affiliated with a fund listed in PitchBook[55] with assets under management of HK$7.8 billion or more, or any former CEO/senior officers of a Fortune 500 company.[56] Of the 47 US-listed SPACs that merged between January 2019 and June 2020 (inclusive), 24 meet this definition of "high quality" SPAC Promoters.

Table 3: Average post-merger returns of 47 US-listed SPACs that merged between January 2019 and June 2020 (inclusive)

Type of SPAC Promoters	Average 3-month return	Average 6-month return	Average 12-month return
High quality	+31.5%	+15.8%	-6.0%
Non-high quality	-38.8%	-37.6%	-57.3%
All	**-2.9%**	**-12.3%**	**-34.9%**

(Source: Joint Study, page 34.)

[53] Returns on stock prices in three months after shareholder approval of the merger for each De-SPAC Transaction.

[54] Goldman Sachs Global Investment Research, The IPO SPAC-tacle, 28 January 2021.

[55] PitchBook Data, Inc, a provider of data on private and public financial markets.

[56] Both the Fortune 500 (the 500 largest companies in the US) and the Fortune Global 500 (the 500 largest companies in the world) were included. See Joint Study, page 33.

Volatility of SPAC Share prices

Volatility of SPAC Share prices prior to De-SPAC

81. Prior to a De-SPAC Transaction, the volatility in the share prices of most US listed SPACs is similar to that of a bond, with low volatility at a constant valuation around their IPO share price.[57] In contrast, typical US IPOs in 2020 showed a mean return of 38% on the first day of trading, exhibiting a much greater variability and volatility in price.[58] Notwithstanding this, examples have arisen of market rumours driving SPAC Share prices beyond their redemption value for individual SPACs.

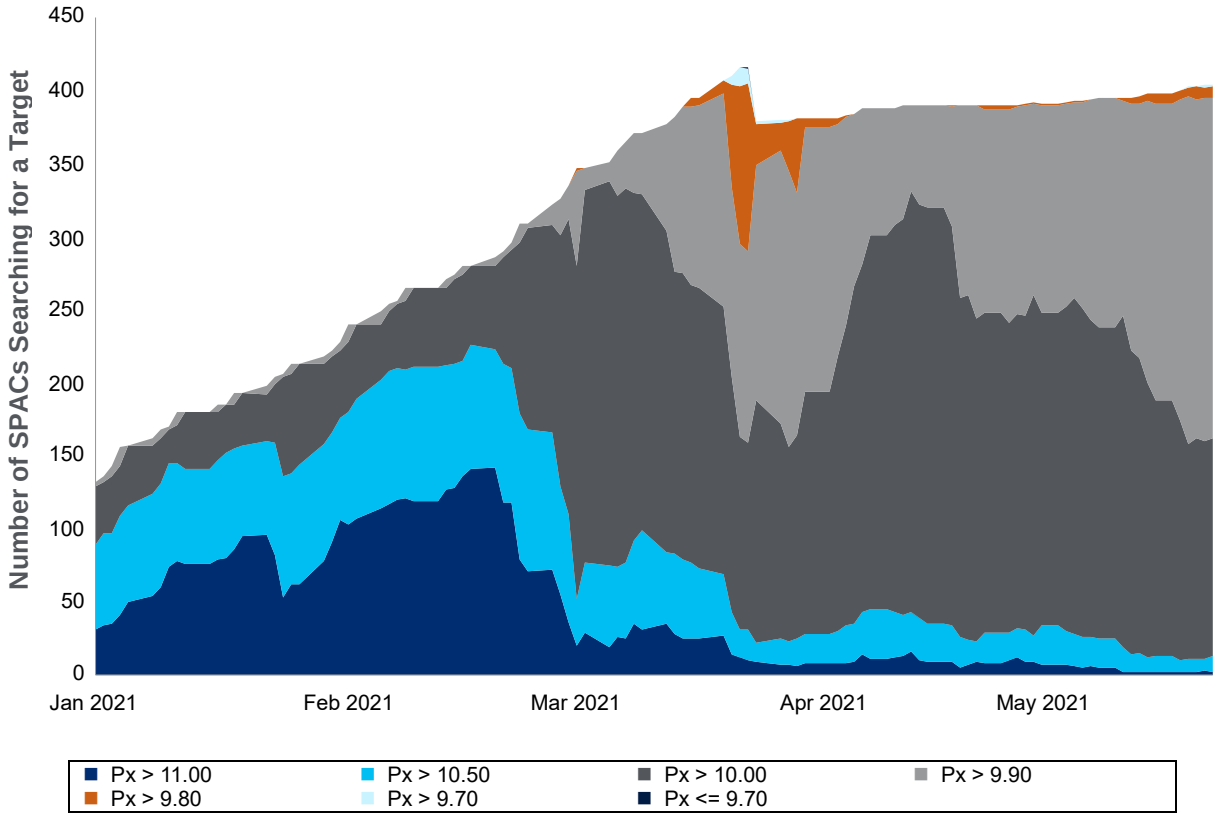
82. Some SPACs have been observed to experience large spikes in their share prices following merger rumours. For example, one such rumour, in December 2020, pushed the share price of a SPAC to over US$13, and further to a record high of US$17.22 (72% above its US$10 offer price) after the proposed De-SPAC Target's confirmation two weeks later. As the merger rumour subsided, the SPAC price fell to a low of US$10.50 (39.6% below the historic high) before it experienced a day gain of 12.7% following another merger rumour in April 2021. Investors that purchased the SPAC's shares at prices above US$10 had the right to redeem only at US$10 and so may have suffered significant losses if they did so (see also paragraphs 120 and 121 on price volatility risks of SPAC Shares).

83. The trading prices for SPACs in search of De-SPAC Targets were boosted in the first two months of 2021 but waned immediately after heightened regulatory scrutiny. Yet most SPAC prices remain very close to offer prices (typically 3% to 5% drop at max) given the securitized cash in trust. In late March to mid-April another rapid drop in SPAC share prices occurred in reaction to further regulatory scrutiny, but prices recovered shortly afterwards (see Figure 4).

[57] See footnote 49.

[58] Nasdaq Economic Research, Trends in IPO Pops, 4 March 2021.

Figure 4: US Listed SPAC Share Price Movement (January 2021 to May 2021)



(Source: Citi Event-Driven Desk, retrieved on 21 May 2021)

Volatility of SPAC Share prices around the completion of De-SPAC

84. In general, SPAC returns are the most volatile during the final days prior to and around the completion of a De-SPAC Transaction. Of the 55 SPACs that completed acquisitions in 2020, the standard deviation (volatility) of the post-merger announcement one-month excess returns relative to the S&P 500 Index[59] reached 40%[60], compared to a monthly volatility of just 9.6% for S&P 500 Index during the same year.[61]

Volatility of SPAC Warrant prices

85. In common with most share warrants, SPAC Warrants in general experience much higher volatility than SPAC Shares. Research shows that SPAC Warrants prior to De-SPAC experience higher price volatility soon after a SPAC is listed and this price volatility gradually increases as the deadline for a De-SPAC Transaction approaches. This is likely driven by the potential liquidation of the SPAC at that deadline, which would render the SPAC Warrants worthless.[62]

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[59] Returns on stock prices in one month after shareholder approval of the merger (in excess of S&P 500 Index returns for the same period) for each De-SPAC Transaction.

[60] See footnote 54.

[61] See footnote 54.

[62] See footnote 49.

CHAPTER 3: POTENTIAL BENEFITS

86. This Chapter sets out the potential benefits of a listing regime for SPACs in Hong Kong.

Benefits to SPAC Investors

87. The typical SPAC structure contains the following mechanisms that safeguard the interests of SPAC Investors.

Redemption Option

88. If a SPAC identifies a De-SPAC Transaction opportunity, the unitholders of the SPAC are able to choose whether to be a shareholder of the company that is formed from the De-SPAC Transaction or else redeem their SPAC Shares on a pro rata basis from the proceeds raised from the SPAC IPO.[63] This redemption option means that SPAC Investors can avoid (or at least reduce) their losses on their investment if they do not wish to be a shareholder of the Successor Company.

89. The effectiveness of this redemption option as a safeguard is lessened for shareholders who have purchased SPAC Shares at a price higher than the IPO price.

Funds Raised are Held in Trust

90. The funds raised by a SPAC from investors in its IPO are held by a third party in a trust account until a De-SPAC Transaction occurs or the SPAC is liquidated for not having completed such a transaction within a set period of time. This protects and preserves the value of funds raised from misuse and misappropriation.

91. It should be noted, however, that the strength of this mechanism is dependent upon: (a) the nature of the third party holding the funds and whether it is connected to the SPAC Promoter; (b) the legal and regulatory obligations of that third party; (c) the location of the trust account and whether it is easily accessible by legal and regulatory authorities; and (d) whether the funds are held in the form of relatively safe, interest-bearing instruments that are easily liquidated.

Shareholder Vote

92. SPAC shareholders are given the opportunity to consider the terms of a De-SPAC Transaction proposed by the SPAC Promoter and vote on whether to approve it at a general meeting. So SPAC shareholders can reject the transaction if a majority believe that it would not be in their best interests. Issuers in Hong Kong are required to obtain shareholder approval for transactions classified to be of a “major transaction” size or above and so this benefit is not unique to SPAC structures.

93. The effectiveness of the shareholder vote as a safeguard is dependent on whether persons whose interests are not aligned with ordinary SPAC shareholders are able to vote on the De-SPAC Transaction.

94. It should also be noted that, in the US, SPAC shareholders who vote in favour of a De-SPAC Transaction can still redeem their SPAC Shares. If they still hold SPAC Warrants,

[63] This normally results in SPAC Investors receiving HK$10 per share held.

they can also exercise those warrants after the De-SPAC Transaction. For such shareholders, there is no downside to voting in favour of the De-SPAC Transaction. Voting against the transaction, on the other hand, risks rendering their SPAC Warrants worthless. Commentators believe these incentives mean that most SPAC shareholders are incentivised to vote in favour of De-SPAC Transactions and so very few are not approved.[64]

Benefits to De-SPAC Target

Reduced Time to Listing

95. One of the purported benefits of listing via a SPAC is that less time is needed to execute a De-SPAC Transaction than to execute an IPO transaction. Reduced execution time can be important if it helps ensure that an issuer lists at a time that is optimum to achieving the highest valuation.

96. The relative speed of a De-SPAC Transaction and IPO execution in the US is a topic of debate amongst commentators. Some claim that a De-SPAC Transaction usually occurs in three to six months on average, compared to the 12 to 18 months required for a typical IPO.[65] Other commentators claim a smaller difference in execution speed[66] while some state that the differences between the minimum time needed to close either deal type are not meaningfully different.[67]

97. However, there is some consensus among commentators that a De-SPAC Transaction can be quicker if the target is negotiating with only one party, the SPAC Promoter. In this circumstance, the time required to reach agreement on the terms of the transaction can be shorter than the time needed for a typical IPO bookbuilding process.[68] This shorter execution time is compromised, however, if a SPAC Promoter has to market the deal to potential PIPE investors.

Greater Price and Deal Certainty

98. A De-SPAC Transaction may provide a target company with a greater degree of certainty, than a traditional IPO, that it will be able to list and do so at an attractive price. This is because the number of parties that determine the price at which a company

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[64] Baker Botts LLP, A Surge of SPACs in a Turbulent Economic Climate, 27 July 2020.

[65] KPMG Advisory, Why so many companies are choosing SPACs over IPOs, retrieved on 4 May 2021.

[66] Bridgepoint Capital, SPAC vs Traditional IPO & Reverse Takeover states that the a De-SPAC Transaction takes 3-4 months (from letter of intent to closing) and a traditional IPO takes 6-9 months (from initial prospectus drafting to close of IPO), retrieved on 4 May 2021.

[67] Vinson & Elkins, Alternative Routes to Going Public – Initial Public Offering, De-SPAC or Direct Listing, Fall 2020. A Deloitte and Skadden guide to going public gives a detailed projected IPO timetable from initial organisation meeting to closing of four months (Deloitte / Skadden, Strategies for Going Public, Fifth Edition, "Appendix D: A timetable for going public"). For comparison we looked at a Deloitte guide to SPAC transactions, which stated that these transactions take four to six months to complete from the start of diligence/negotiation to the deal closing (Deloitte, Private-Company CFO Considerations for SPAC Transactions, September 2020).

[68] Pitchbook, The 2020 SPAC Frenzy Blank-check vehicles offer many benefits but are not a cure-all for IPO process, 1 September 2020.

lists is larger for a traditional IPO than for a SPAC.

99. In a traditional IPO, the IPO applicant cedes control of pricing to underwriting investment banks and the bookbuilding process. If, during this process, the IPO applicant comes to believe that the bookbuilding is likely to result in it being undervalued, it may be too late and too expensive to get a better valuation through changing underwriters. In a De-SPAC Transaction, however, the De-SPAC Target itself negotiates a price with a SPAC Promoter and so retains greater control over the pricing process. [69]

100. However, this certainty can be undermined by the option that SPAC shareholders have to redeem their shares. The extent of redemptions cannot be known until after the redemption deadline. This creates uncertainty as to whether the De-SPAC Transaction will close (if the De-SPAC agreement requires that the SPAC hold a minimum amount of cash after the redemptions)[70] and creates uncertainty as to the balance of cash and consideration shares that will be issued to the owners of the De-SPAC Target as a result of the transaction.[71]

Greater Flexibility on Deal Structure

101. A De-SPAC Target can negotiate the raising of more capital, compensation for dilution, management incentives, lockup periods or any other facets of the De-SPAC Transaction to tailor its listing around its requirements. This flexibility is not normally possible in a traditional IPO due to the need to get the buy-in from many IPO subscribers.

102. Also, as a SPAC Promoter potentially has the in-house expertise to take over full management of the De-SPAC Target, a De-SPAC Transaction offers the possibility of a full cash exit for the target's existing owner managers. Such an action would likely result in a severe discount on its valuation in a traditional IPO.[72]

Expertise of SPAC Promoter

103. The valuation of an IPO applicant is determined by the IPO's underwriters using bookbuilding to gauge market demand from outside investors. In contrast, the value of a De-SPAC Target is determined by negotiations between the target and the SPAC Promoters.

104. SPAC Promoters are often experts in the sectors in which they aim to find a De-SPAC Target. This can benefit De-SPAC Targets if they are businesses with very few listed

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[69] See footnote 64; and Wachtell, Lipton, Rosen & Katz, The Resurgence of SPACs: Observations and Considerations, 20 August 2020.

[70] A SPAC may try to increase the certainty of the transaction closing through either or both: (a) limiting the extent of redemptions by institutional shareholders by entering into forward purchase agreements with them at the time of their investment in the SPAC IPO; (b) PIPE investments. A SPAC Promoter may relinquish some of their Promoter Shares as an inducement to both (a) and (b). Wachtell, Lipton, Rosen & Katz, The Resurgence of SPACs: Observations and Considerations, 20 August 2020 (page 3).

[71] Joint Study, pages 46 to 48.

[72] Gibson Dunn & Crutcher LLP, 9 Factors To Evaluate When Considering A SPAC, 11 March 2019 by Gerry Spedale and Eric Pacifici.

issuer comparables or if they face some other uncertainty or complexity such as extremely long-term growth stories (such as electric vehicle businesses and Biotech Companies). Whereas public investors may apply a discount to the value of such an IPO applicant, the knowledge and expertise of a SPAC Promoter may allow it to more accurately ascribe a fair value to the De-SPAC Target.

105. However, it should be noted that De-SPAC Transaction is still ultimately subject to approval of outside investors – the SPAC's shareholders – who may choose not to approve the transaction or may choose to redeem their shares in large numbers, if they do not agree with the valuation that the SPAC Promoter has negotiated with the target.

106. After a De-SPAC Transaction, the SPAC Promoters may wish to take a management role in the company that results from that transaction. If this happens, there could be a transfer of expertise and industry connections from the SPAC Promoter to the De-SPAC Target. This is a long term benefit that would not be available following a typical IPO. [73]

Potential Competition Benefits for Hong Kong

Competition for SPAC Listings

107. As at 13 July 2021, there were 25 SPACs headquartered in Greater China listed in the US. These SPACs collectively raised approximately US$4.2 billion (HK$33.1 billion) from their IPOs.[74] Of these 25 SPACs, 20 are headquartered in Hong Kong and five are headquartered in the Mainland China. In addition, several SPACs headquartered outside of these locations have Greater China as their focus.

108. If SPACs focused on finding a Greater China target were able to list in Hong Kong, this may also help ensure that such targets chose Hong Kong as a listing venue rather than the US.

Competition for Greater China and South East Asia Listings

109. Hong Kong has established itself as the leading financial centre for the listing and trading of Greater Chinese and South East Asian companies outside Mainland China. However, in the last three years, two Hong Kong, eight Mainland China and two Singapore companies have listed in the US via a De-SPAC Transaction. As at 13 July 2021, these 12 companies had a combined market capitalisation of approximately HK$26 billion.[75]

110. During our preliminary discussions with them, stakeholders said 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. Hong Kong may be better able to compete for Greater China listings if it was also able to offer such a dual-track option.

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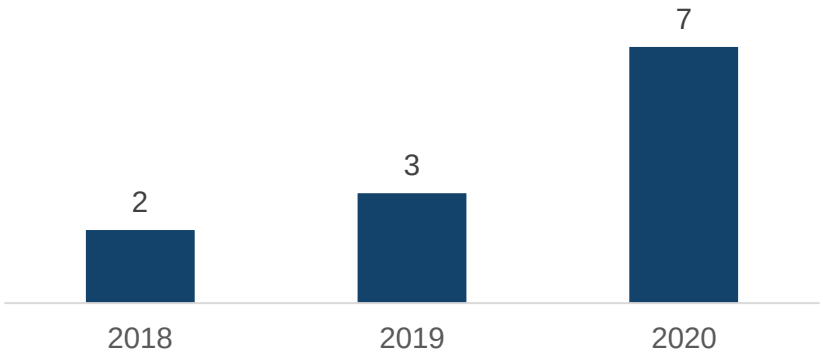
[73] See footnote 72.

[74] Including proceeds from exercise of overallotment option. Source: S&P Capital IQ, retrieved on 13 July 2021.

[75] Dealogic and S&P Capital IQ, retrieved on 13 July 2021.

Figure 5: Number of De-SPAC Transactions on US Exchanges Resulting in the Listing of Greater China and South East Asian Issuers (2018 to 2020)



(Source: Dealogic and S&P Capital IQ, retrieved on 13 July 2021.)

Wider Investment Opportunities

111. SPAC Promoters may have the expertise needed to source and list targets with high growth potential that may struggle to obtain an attractive valuation through a traditional IPO (see also paragraph 104).

112. If SPACs result in the listing of companies who prefer not to list via an IPO because of valuation concerns (even though they may have been eligible to do so), they provide public investors with investment opportunities previously inaccessible to them that may have, instead, been enjoyed only by private equity investors.

113. Some commentators view SPACs as a means for public investors to gain access to the growth of early stage companies that is normally available only to Professional Investors in private equity funds. SPACs provide public investors with the opportunity to co-invest alongside an expert SPAC Promoter, through shares and warrants, as they would in a private equity fund, without paying the high management fees that are normally charged by such funds.

CHAPTER 4: MAJOR ISSUES

Current prohibition on "shell activities"

114. To maintain the quality and reputation of our markets, the Exchange Listing Rules and guidance aim to prevent the manufacture and maintenance of shell companies and the circumvention of IPO requirements through the injection of sub-standard assets and/or businesses into listed shells (collectively referred to in this paper as "shell activities"). As they are cash shell companies, these prohibitions also prevent the listing of SPACs.

At IPO

115. Listing applicants are not considered suitable for listing if their assets consist wholly or substantially of cash or short-term investments.[76] This is to avoid issuers utilising these assets after listing to acquire and/or commence new businesses that are not suitable for listing and circumvent the Exchange's initial listing requirements.

116. Listing applicants seeking to list on the Main Board must also demonstrate a trading record of at least three financial years[77], unless otherwise varied or waived by the Exchange under certain circumstances.[78] The Exchange considers a listing applicant's proven track record provides a basis to substantiate that its business is of substance and is viable and sustainable.

Post-IPO

117. To warrant its continued listing, an issuer must, on a continuous basis, carry out a business with a sufficient level of operations and assets of sufficient value to support those operations.[79] If it fails to do so, trading of its securities may be suspended[80] and the issuer would be given a stipulated timeframe to remedy the matter. An issuer's listing status may be cancelled if it does not comply within that stipulated period.[81]

118. Where a listed issuer conducts an RTO[82], the enlarged group or the assets to be

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[76] Rule 8.05C. The requirement does not apply to an investment company listed through Chapter 21, a banking company, an insurance company or a securities house.

[77] Rules 8.05(1)(a); 8.05(2)(a); and 8.05(3)(a).

[78] The Exchange may accept a shorter trading record where (i) in the case of an applicant seeking to list through the market capitalisation / revenue test under Rule 8.05(3), the directors and management of a listing applicant have requisite experience of at least three years and there is management continuity for the most recent audited financial year (Rule 8.05A); (ii) a listing applicant is a mineral company under Chapter 18 of the Listing Rules (Rule 8.05B(1)); or a newly formed 'project' companies (Rule 8.05B(2)); (iii) the issuer or its group has a trading record of at least two financial years if the Exchange is satisfied that the listing of the issuer is desirable in the interests of the issuer and the investors and that investors have information necessary to arrive at an informed judgment on the issuer and its securities (Rule 8.05B(3)); and (iv) a listing applicant is a Biotech Company under Chapter 18A of the MB Rules (Rule 18A.02).

[79] Rule 13.24(1).

[80] Rule 6.01(3).

[81] Rule 6.01A(1).

[82] Rule 14.06B. RTO is defined as an acquisition or a series of acquisitions of assets by a listed issuer which, in the opinion of the Exchange, constitutes, or is part of a transaction and/or arrangement or

acquired must meet the track record requirements for new applicants[83], and the enlarged group must meet all other new listing requirements under the Rules.[84]

Trading Related Concerns

119. Our previous reviews found that, where shell creation and maintenance activities leave listed issuers with minimal operations, this invites speculative trading, and can lead to opportunities for market manipulation, insider dealing and unnecessary volatility in the market which are not in the interest of the investing public. These activities undermine investors' confidence and overall market quality.[85] The same concern arises for SPACs, which are cash shells without operations.

Risk of Price Volatility

120. As a SPAC has no operations, it is unable to report performance factors (e.g. revenue, profit / loss and cash flow) that investors would normally rely upon to determine the value of its shares. The share price of a SPAC is therefore likely to be driven by speculation and rumour instead, particularly with regards to the potential outcome of the SPAC's efforts to find a suitable De-SPAC Target.

121. A study by market researchers on SPACs listed in Korea[86] attributed volatility in SPAC trading there to its heavily retail-based market. They noted that this speculation often pushed the SPAC Share price above its IPO price. This lessened the protection provided to investors by the SPAC redemption option, as SPAC Units could only be redeemed at their IPO price and not at the inflated price at which retail investors had purchased them. This study also noted that speculation could drive a larger proportion of SPAC Units into the hands of retail investors as institutional investors used retail speculation to realise their own investment gains.

Additional Risk of Volatility of Warrants

122. Market research also provided empirical evidence that SPAC Warrants experience much higher price volatility than SPAC Shares at all stages prior to a De-SPAC Transaction (see paragraph 85). The cost of purchasing the warrants needed to convert into one share is typically several times lower than the current market price of that share. This "gearing" means that warrants can be used to leverage capital. However, it also means any changes in share price will be magnified in the price of the warrant, exaggerating their volatility and posing additional risk to warrant investors.[87]

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series of transactions and/or arrangements which constitute, an attempt to achieve a listing of the acquisition targets and a means to circumvent the requirements for new applicants.

[83] Rule 14.54(1).

[84] Rule 14.54(1).

[85] HKEX, Consultation Paper on Backdoor Listing, Continuing Listing Criteria and other Rule Amendments, paragraph 101.

[86] Korea Capital Market Institute, "The Characteristics of SPAC Investments in Korea" published in the periodical Capital Market Perspective 2010 vol 2 no 3.

[87] For example, if a company's share price is HK$1.50 and the price of a warrant that converts into one share of the company is HK$0.50, the warrant has a gearing factor of three (HK$1.50 / HK$0.50).

Risk of Market Manipulation

123. There is also a concern that the sensitivity of a SPAC's share price to rumour makes them relatively more susceptible to share price manipulation. This could be attempted, for example, by fraudsters deliberately spreading rumours of a forthcoming De-SPAC Transaction to raise the value of their shareholdings to a level at which it is advantageous for them to sell.

124. On 20 May 2021, the Exchange and the SFC jointly published a statement on IPO-related misconduct highlighting the dangers of "ramp and dump" schemes and noting that such schemes are typically conducted using social media platforms.[88] Such platforms could also be used to inflate the price of SPAC Shares above their IPO price.

Risk of Insider Dealing

125. Inside Information is information that:

(a) is specific to a particular corporation;

(b) is not generally known to that segment of the market which deals or which would likely deal in the corporation's securities; and

(c) would, if so known, be likely to have a material effect on the price of the corporation's securities.[89]

126. For SPACs, Inside Information may arise in several circumstances but particularly in relation to the negotiations with a possible De-SPAC Target. If an ordinary listed issuer announces an acquisition, any subsequent movement in its share price will be tempered by investors' views on the current and expected performance of the issuer's business operations (and that of its industry sector). Investor sentiment will also be influenced by the perceived costs and benefits of the combination of the issuer's business with that of the acquisition target.

127. These factors would not be relevant to a SPAC because a SPAC does not have any business operations. Any movement in a SPAC's share price following the announcement of a De-SPAC agreement would be solely the result of that announcement. This means that someone in possession of Inside Information regarding such a transaction prior to its announcement would have greater certainty of making a gain from insider dealing than he would have if he was contemplating doing so in the shares of an ordinary listed issuer negotiating an identical acquisition.

128. Consequently, the probability of insider dealing occurring in a listed SPAC would be higher than for an ordinary listed issuer.

This means that any subsequent change in the company's share price will result in a change in the warrant price that it is three times greater.

[88] SFC and HKEX, Joint Statement on IPO-related misconduct, 20 May 2021.

[89] SFC, Guidelines on Disclosure of Inside Information, June 2012, paragraph 16.

Quality of Management Concerns

Suitability of SPAC Promoters

129. There is a concern that SPAC Promoters may lack the knowledge and experience necessary to find an acquisition target that can provide SPAC Investors with a good return on their investment. In the US, there have been several examples of celebrities endorsing SPACs through social media. There is a risk that SPAC Investors may be lured into investing in SPACs based on such endorsements. On 10 March 2021, the SEC issued an investor alert cautioning investors not to make investment decisions related to SPACs based solely on celebrity involvement.[90]

130. SPAC Promoters may also attempt to deliberately mislead investors as to the extent of their abilities. As the SEC has cautioned[91], fraudsters may fabricate, exaggerate, or hide facts about their backgrounds to portray themselves as successful professionals. Others may repeat these misrepresentations and so contribute to a false "buzz of success" and professional accomplishment around a SPAC Promoter.

Continuity of Management

131. Legitimate SPAC Promoters typically have knowledge and experience of the industry to which the De-SPAC Target belongs and may also have previous experience managing listed issuers. They will also usually have an economic stake in the company that results from a De-SPAC Transaction. Consequently, SPAC Promoters may take a management role in that company.

132. If the composition of the board of a De-SPAC Target changes substantially as a result of the De-SPAC Transaction, its historical financial track record becomes a less reliable indicator of its future performance. This is because its new management team were not responsible for that track record and uncertainty therefore arises as to whether they would be able to replicate or improve upon that track record.

Quality of Market Concerns

Risk of Circumvention of IPO Requirements

133. SPACs are cash shell companies and consequently there is a risk that they will be used as a means to circumvent the quantitative and qualitative criteria for listing at IPO. Applying lower entry criteria to De-SPAC Targets than that applied to an IPO could result in the listing of sub-standard businesses and/or assets. This would reduce the quality and reputation of the market as a whole. Please see Schedule B for more details of the history of our approach towards "shell activities" in Hong Kong.

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[90] SEC, Investor Alerts and Bulletins, "Celebrity Involvement with SPACs – Investor Alert", 10 March 2021.

[91] SEC, Investor Alerts and Bulletins, "Investor Alert: Beware of False or Exaggerated Credentials", 3 June 2015.

De-SPAC Target Valuation

134. To list on the Main Board, an applicant must have a market capitalisation at listing of at least HK$500 million.[92] In an IPO, an applicant demonstrates that it meets this market capitalisation threshold by receiving subscriptions to purchase its shares at an IPO price, following bookbuilding.[93] This bookbuilding process is not required for a De-SPAC Transaction. Instead, a valuation is agreed between the De-SPAC Target and the SPAC Promoter, on terms that are often agreed with and validated by outside third party PIPE investors.

135. The relatively small group of persons who determine the valuation of a De-SPAC Target, means that the transaction is more susceptible to deliberate attempts at over-valuation to circumvent our minimum market capitalisation threshold for new listings. If such attempts are successful, this could lead to the listing of sub-standard businesses / assets, reducing the quality of the market as a whole.

Shareholder Protection Concerns

Misalignment of Interests

136. The interests of SPAC Promoters and SPAC Investors should, as much as possible, be aligned so that SPAC Promoters are not incentivised to act against the interests of SPAC Investors. However, the structure of a SPAC may cause such misalignments to occur. For example:

(a) SPAC Promoters may be offered SPAC Units of an amount or at a consideration that is overly generous and not commensurate with the effort required to launch and manage the SPAC and identify a suitable De-SPAC Target; and / or

(b) SPAC Promoters may be offered warrants to acquire shares in the Successor Company on terms that are more generous than those offered to SPAC Investors.

137. In both these circumstances, the SPAC Promoter's gain (or mitigation of its potential loss) may incentivise it to identify, negotiate and accept a De-SPAC Transaction that is not in the SPAC Investors' best interests.

Dilution Risk

138. An investor may be at greater risk of dilution of their economic interest in a SPAC compared to an investment in a traditional IPO. This additional dilution risk occurs due to:

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[92] This is the market capitalisation threshold that applies if an applicant chooses to list under the "Profit Test" of Rule 8.05(1). Applicants can choose to meet one of two alternative tests that set revenue and/or cashflow thresholds, rather than a profit threshold, but these require the applicant to meet minimum market capitalisation thresholds that are much higher than HK$500 million (Rules 8.05(2) and (3)).

[93] Its expected market capitalisation is then calculated by multiplying the IPO price by the number of shares the applicant will have in issue at listing.

(a) **Promoter Shares issued to the SPAC Promoter**. Promoter Shares are typically issued at a nominal price to SPAC Promoters, i.e. at a much lower price than the price of SPAC Shares issued at the SPAC's IPO. Because they convert into ordinary shares without a SPAC Promoter providing any additional funds, their conversion results in a dilution in the value of ordinary shares; and

(b) **Warrants included in SPAC Units**. In the US, if SPAC Investors redeem their SPAC Shares, they receive the full IPO price paid for those shares but can retain any SPAC Warrants they hold at no cost. The retained SPAC Warrants, when exercised, result in the issue of new shares, so diluting the number of shares in issue. This dilution effect increases with the number of SPAC Shares that are redeemed as each redemption leads to an increase in the proportion of SPAC Warrants in existence relative to unredeemed SPAC Shares. As stated above (see paragraph 34), SPAC Share redemption rates are typically high (58% on average with a median rate of 73% according to the Joint Study).

SPAC Warrants are issued "out of the money", with an exercise price that is greater than the SPAC share IPO price (typically US$11.50 per share). Consequently, when warrant holders exercise their right to purchase a newly issued share at this exercise price, the dilution of value to shareholders will depend on the difference between this exercise price and the current trading price of the shares into which they are converted.

139. The amount of dilution from the factors set out above is reduced if PIPE investment is raised. This is because PIPE investors typically subscribe at the full price of the SPAC Shares (US$10) and without warrants. However, as stated above, on average PIPE investment represents only 40% of the funds raised for a De-SPAC Transaction, limiting the extent to which it compensates for dilution. The Joint Study estimates the median value dilution resulting from Promoter Shares issued to SPAC Promoters and SPAC Warrants to be 7.7% and 4%, respectively, after taking into consideration average level of PIPE investment.[94]

[94] Joint Study, page 27.

CHAPTER 5: POSSIBLE SAFEGUARDS

INTRODUCTION

140. In this chapter we set out proposed safeguards that aim to find a suitable balance between providing the potential benefits set out in Chapter 3, while mitigating the major risks described in Chapter 4. In doing so, we have not attempted to replicate the US SPAC regime. Instead we propose a regime tailored to the particular risks and requirements of the Hong Kong market.

141. Also, for the reasons set out above (see paragraphs 9 to 13) we propose an approach that aims to ensure the listing of SPACs that have experienced and reputable SPAC Promoters that seek good quality De-SPAC Targets. Consequently, a number of proposals set out below are designed to provide a high entry point for SPAC listing applicants and De-SPAC Targets.

142. Prior to formulating the proposals in this chapter we met with key stakeholders including: SPAC Promoters, SPAC Investors and market practitioners. The views of these participants at these preliminary discussions are stated for each proposal. These discussions were held to help inform our proposals and ensure that they are practical and compatible with market practice.

(A) CONDITIONS FOR LISTING

I. Investor Suitability

Jurisdictional comparison

143. The US and UK do not restrict the subscription and trading of SPAC securities to Professional Investors and allow all investors, including retail investors, to trade them. SGX also does not limit the subscription and trading of SPAC securities to Professional Investors in Singapore.

Comments made in preliminary discussions with stakeholders

144. Participants at our preliminary discussions were split between those that thought that retail participation was a key benefit of the US SPAC regime, and others that believed that retail participation was not critical to ensure the success of a SPAC regime.

145. Those that favoured retail participation viewed SPACs as a mechanism for retail investors to gain access to the growth of early stage companies normally available only to Professional Investors in private equity funds.

146. Others believed that, in practice, SPACs tended to be marketed to and traded by Professional Investors and so a Hong Kong restriction to those types of investors would not make a significant difference to the success of a SPAC regime here.

147. However, most participants thought that the population of Professional Investors in Hong Kong to whom SPACs could be marketed was relatively small. If the Exchange was minded to set a threshold for the minimum number of Professional Investors required to hold a SPAC's securities to ensure an open market, they recommended that the Exchange not set this threshold at an unrealistically high level.

Proposals

148. We believe Professional Investors are better placed to assess, monitor and mitigate the combination of risks associated with SPACs (see Chapter 4 for our assessment of the major risks associated with SPACs).

Restriction to Professional Investors only prior to a De-SPAC Transaction

149. Prior to a De-SPAC Transaction, we propose to restrict the subscription and trading of a SPAC's securities to Professional Investors only. The definition of Professional Investors for the purpose of these proposals would include both Institutional Professional Investors and Individual Professional Investors.[95] This restriction would not apply to the Successor Company, whose securities would be freely transferable amongst all investor types.

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[95] In this paper, an Individual Professional Investor means a non-Institutional Professional Investor, and includes any individual and corporate entity falling under the Securities and Futures (Professional Investor) Rules (Cap. 571D). Accordingly, it includes: (i) an individual having a portfolio of not less than HK$8 million, (ii) a trust corporation with total assets of not less than HK$40 million; and (iii) corporation or partnership which have a portfolio of not less than HK$8 million or total assets of not less than HK$40 million.

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)? Please give reasons for your views.

II. Arrangements to Ensure Marketing to and Trading by Professional Investors only

Proposals

150. We propose that the Exchange must be satisfied that adequate arrangements have been made to ensure that the securities of a SPAC will not be marketed to or traded by the public in Hong Kong (without prohibiting marketing to or trading by Professional Investors).

SPAC Requirements

151. A SPAC will be required to:

(a) have a board lot size and subscription size of a value of at least HK$1,000,000 for its SPAC Shares; there will be no such requirement for SPAC Warrants due to technical reasons[96], Professional Investors trading SPAC Warrants would need to exercise caution due to their potential price volatility;

(b) demonstrate to the Exchange that the intermediaries involved in selling securities for and on behalf of the SPAC should, as part of their "know your client" procedures under the SFC's Code of Conduct, satisfy themselves that each placee is a Professional Investor; and

(c) demonstrate to the Exchange that all other aspects of the structure of any SPAC securities offering preclude access by the public (other than Professional Investors).[97]

Exchange Participant Requirements for Secondary Trading

152. The Exchange will implement measures to limit participation in secondary trading of SPAC securities to Professional Investors.

SPAC Exchange Participant approval process

153. We propose to establish an approval process for SPAC Exchange Participants (i.e.

[96] Whether SPAC Warrants will be allowed for separate trading immediately after commencement of listing is still under consideration (please see paragraphs 165 to 174). SPAC Warrants, as a right to purchase SPAC Shares, will likely have a theoretical value between zero and a portion of SPAC Shares' price, from the date of initial listing to a De-SPAC Transaction. Hence, the value of a board lot size for SPAC Warrants will be likely much lower than the one for SPAC Shares, and therefore it will be difficult to set a minimum board lot value for SPAC Warrants (if allowed for separate trading) that would help ensure they were traded by Professional Investors only. After a De-SPAC Transaction, SPAC Warrants, if still outstanding, would be converted to warrants of the Successor Company.

[97] These requirements are similar in content to restricted marketing requirements for investment companies listing under Listing Rule Chapter 21 (see Rules 21.14(3) and 21.14(5) and Guidance Letter HKEX-GL17-10 "Guidance for Chapter 21 companies", paragraph 4).

existing or new Exchange Participants wishing to use the Exchange's trading system to trade SPAC securities). Under this new approval process, SPAC Exchange Participants would be required to provide written undertakings from responsible officers, or any information requested by the Exchange (e.g. the relevant policies and procedures, system control, etc.), that they acknowledge and would comply with the requirement that the securities of a SPAC not be marketed to or traded by clients who are not Professional Investors.

154. All SPAC Exchange Participants must be approved by the Exchange before they can input orders or trades in SPAC securities on the Exchange's trading system.

Monitoring

155. We propose to require a SPAC Exchange Participant to confirm, in the text field for each order or trade on a SPAC's securities, that it was made by or on behalf of a Professional Investor (for example, by typing the text "PI" into this field).

156. The Exchange also proposes to conduct scheduled thematic reviews on a half-yearly basis on selected SPAC Exchange Participants to check their compliance with Professional Investor-only SPAC trading requirements. These thematic reviews may include requests for account opening documents; client assessment records; and order placing workflow measures in place to verify Professional Investor status of their clients who placed SPAC orders.

Enforcement

157. The Exchange would take enforcement action against a SPAC Exchange Participant it finds to have breached its requirements regarding the Professional Investor-only trading of SPAC securities. These enforcement actions would include, but not be limited to, warning letters, the imposition of fines, and the temporary or permanent prohibition of SPAC Exchange Participants from conducting trading in SPAC securities.

158. We would also issue a compulsory order to a SPAC Exchange Participant to unwind settled positions found to be in breach of the Exchange's Professional Investor-only SPAC securities trading requirements. The position must be unwound within three days of the settlement of the relevant position. SPAC Exchange Participants must make appropriate arrangements to ensure that their clients understand the requirements, and are aware of the potential losses an ineligible investor may suffer as a result of mandatory unwinding of the relevant position.

Stock Short Name Marker

159. The Exchange will also assign a special stock short name marker to the stock short names of SPAC Shares and SPAC Warrants to help the market differentiate them from the securities of non-SPAC issuers.

Question 2	If your answer to Question 1 is "Yes", 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.

III. Trading Arrangements

Jurisdictional comparison

160. The US dominates the SPAC market globally. In the first half of 2021, of the 380 SPAC IPOs (raising US$114 billion) that took place worldwide, almost 360 (raising US$109 billion) took place in the US. As such, the US model could be considered the most representative SPAC regime, including with regards to the characteristics of its trading arrangements.

161. SPACs listed in the US generally allow investors to separate SPAC Units into SPAC Shares and SPAC Warrants, at their discretion, 52 days after a SPAC IPO. The SPAC Shares and SPAC Warrants are then separately tradeable under their own stock tickers alongside SPAC Units. Separation of SPAC Units is usually at the discretion of the unitholder and is not automatic (i.e. investors have to request the separation).[98]

162. Under the previous and revised UK SPAC regime, SPAC Shares and SPAC Warrants can be traded separately. The UK Conclusions Paper states that the UK FCA is giving further consideration to the listing of stapled units and will communicate its approach in due course.[99]

163. The SGX Consultation Paper[100] proposed that SPAC Warrants (or other convertible securities) should not be detachable from SPAC Shares and should trade as a single unit until a De-SPAC Transaction. However, the SGX Response Paper states that, on the basis of feedback that it received from respondents, SGX [101] permits the detachability of SPAC Warrants to be consistent with the US model.

164. Under the SPAC regime in Germany, SPAC Shares and SPAC Warrants can be traded separately from the date of initial listing onwards.[102]

Proposals

Volatility risk associated with the trading of SPAC securities

165. If SPAC Units can be separated into SPAC Shares and SPAC Warrants immediately after commencement of listing, we are concerned that there would be a disorderly market for SPAC securities due to sudden changes in volatility of share prices given SPAC's nature.

166. First, warrants are generally more volatile than their underlying shares. Volatility of SPAC Share prices could lead to exponential price movements of SPAC Warrants. Second, unlike derivatives warrants, no market maker or liquidity provider will be appointed to provide liquidity in SPAC Warrants. The lack of liquidity may further

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[98] A unitholder is required to instruct their broker to contact the SPAC's transfer agent to separate their SPAC Units into SPAC Shares and SPAC Warrants.

[99] UK Conclusions Paper, paragraph 2.5.

[100] SGX Consultation Paper, paragraph 2.2 on page 18.

[101] SGX Response Paper, paragraph 3.31 on pages 49-50.

[102] "Investors receive SPAC shares of stocks and warrants", Deutsche Börse Cash Market website.

exaggerate volatility of SPAC Warrants and lead to a disorderly market.

167. In view of these concerns, one approach that could be considered would be to not permit the separate trading of SPAC Shares and SPAC Warrants until a De-SPAC Transaction completes. Stakeholders have informed us that such an approach may discourage certain types of investor (e.g. hedge funds who prefer holding warrants than shares due to lower investment capital usage) from fully participating in the trading of SPAC securities, to the detriment of liquidity and the attractiveness of the SPAC regime as a whole.

168. We also note that it is the practice in the US for SPAC Units to be separated into SPAC Shares and SPAC Warrants after 52 days following a SPAC IPO and at unitholders' discretion. We understand this practice to be in place to accommodate the stabilisation of SPAC Units over that period. However, under our proposed SPAC regime, due to Professional Investor-only restrictions, no stabilisation would be permitted.

169. Consequently, we seek feedback on whether the separate trading of SPAC Shares and SPAC Warrants should be allowed,[103] prior to the completion of a De-SPAC Transaction and, if so, what additional measures should be in place to mitigate the risks of extreme volatility and a disorderly market. We seek feedback on the following two measures.

Option 1: allow only manual trades on SPAC Warrants

170. Under this option, to reduce the likelihood that investors engage in speculative trading, Professional Investors wishing to trade SPAC Warrants would be required to request quotes from the SPAC Exchange Participant(s) who would, in response, provide bids or offers for the quantities required. If transacted, the SPAC Exchange Participant acting as agent or counterparty alike would then report the transaction to the Exchange as per current manual trade reporting requirements. There would be no automation of this process and no pre-trade transparency of the orders in the central limit order book. However, post-trade transparency of the transaction would remain.

Option 2: allow both automatching of orders with Volatility Control Mechanism, and manual trades, on SPAC securities

171. Under this option, automatching of trading orders and manual trades for SPAC securities would be permitted. However, trading with automatching would be subject to the Exchange's Volatility Control Mechanism (VCM).

172. The Exchange's current VCM is primarily designed to prevent extreme price volatility arising from trading incidents such as a "flash crash" and algorithm errors, thus safeguarding market integrity. It triggers a five-minute cooling-off period if the price of a security deviates by more than 10%, 15% or 20% from the price at which it traded five minutes ago (the percentage level varies by market capitalisation size of the

[103] Should separate trading of SPAC Shares and SPAC Warrants be allowed, based on prevailing market model, SPAC Shares will be included in Pre-opening Session (POS) subject to a ±15% price limit from previous close and Closing Auction Session (CAS) subject to a ±5% price limit from CAS reference price, yet SPAC Warrants will not be eligible for POS and CAS as per warrants of listed companies today.

securities).[104]

173. If a cooling-off period is triggered, a security subject to VCM continues to trade, but within price limits during that period. This provides a window for market participants to reassess their strategies, if necessary, and helps to re-establish an orderly market during volatile market situations. After the cooling-off period, trading will resume as normal with VCM monitoring. Multiple triggers per trading session are permitted.[105]

174. The Exchange may propose a special VCM for SPAC Warrants with a price deviation percentage of ±50% to account for the degree of volatility[106], yet keeping other parameters such as applicable time period, allowing multiple triggers, a five-minute observation period, a five-minute cooling-off period and cooling-off period behaviour the same as the existing VCM to enhance familiarity among investors. The Exchange may also apply a similar VCM for SPAC Shares with a price deviation percentage of ±30%, which is higher than 20% currently applied on SmallCaps but lower than 50% we proposed on SPAC Warrants. It should be noted that if this model is adopted, further studies may be required to calibrate the appropriate parameters, in particular the price deviation percentages applied to SPAC Shares and SPAC Warrants.

Question 3	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? If not, do you have any alternative suggestions? Please give reasons for your views.
Question 4	If your answer to Question 3 is "Yes", 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? Do you have any other suggestions to address the risks regarding trading arrangements we set out in the Consultation Paper? Please give reasons for your views. Please provide further technical details if you suggest a different option.

[104] See link for infographic on HKEX's VCM.

[105] VCM applies to the morning and afternoon Continuous Trading Session but there will be no cooling-off period in the first 15 minutes of both sessions and the last 15 minutes of the afternoon session.

[106] See link for details of the US Limit Up/ Limit Down (LULD) Plan; while rights and warrants are specifically excluded from coverage, the US scheme imposes +/-75% price band on symbols with previous closing price of less than $0.75, a price range occupied by our proposed SPAC Warrants.

IV. Open Market Requirements

Jurisdictional comparison

175. The US, UK and Singapore all have regimes that do not limit investment in SPACs (prior to the completion of a De-SPAC Transaction) to Professional Investors. Consequently, these regimes impose shareholder distribution requirements comparable to or slightly lower than that required for a traditional IPO.

176. The US requires SPACs to distribute their shares to a minimum of either 300 or 400 round lot holders.[107] The UK SPAC regime (previous and revised) does not set a minimum threshold for the number of SPAC shareholders but does require that 25% of a SPAC's shares be in public hands.[108]

177. The SGX Consultation Paper initially proposed that at least 25% of the SPAC's total number of issued shares be held by at least 500 public shareholders.[109] However, having considered the market feedback that SPAC Investors would mainly consist of more institutional and sophisticated investors based on observations in the U.S. and that the trading activity of the SPAC's securities would be limited until a De-SPAC Transaction is announced, SGX decided to lower the shareholder distribution threshold to require at least 25% of the SPAC's total number of issued shares be held by not less than 300 public shareholders at the SPAC IPO.[110]

Proposals

Distribution of holders

178. The Listing Rules require that, for a class of securities new to listing, at the time of listing there must be an adequate spread of holders of the securities to be listed. The number will depend on the size and nature of the issue, but in all cases there must be at least 300 shareholders.[111] This Rule is designed to establish a broad base of shareholders that will help ensure subsequent liquidity in the newly listed securities. The requirement is the long established benchmark minimum number that is considered necessary to ensure an open market.

179. We propose above that the securities of a SPAC be marketed to and traded by Professional Investors only prior to the completion of a De-SPAC Transaction (see paragraph 149). This will mean that the number of investors who are eligible and willing to subscribe for the shares of a SPAC in its initial offering will be much smaller than the number of investors in a typical IPO, as non-Professional Investors will not be

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[107] For NYSE and NASDAQ Capital Market: 300 round lot holders (NYSE Listed Company Manual Section 102.06 and NASDAQ Rule 5505(a)(2)&(3)); For NASDAQ Global Market and NYSE American, 400 round lot holders (NYSE American Company Guide Section 102(a) and NASDAQ Rule 5405(a)(2)&(3)).

[108] UK Listing Rule 14.2.2(3).

[109] SGX Consultation Paper, paragraph 2.3, page 10.

[110] SGX Response Paper, paragraph 2.37, page 12.

[111] Rule 8.08(2).

able to subscribe.

180. As we state above (see paragraphs 9 to 13) we aim to list SPACs that have experienced and reputable SPAC Promoters that seek good quality De-SPAC Targets. High quality SPACs should, in turn, attract sizeable commitments from large well-established investors. We have proposed that SPACs raise at least HK$1 billion in funds from its initial offering to help achieve these aims (see paragraphs 189 to 196). So, the total number of investors in a SPAC's initial offering under our proposed regime is likely to be smaller than that it would be for a SPAC regime that did not place such a focus on quality.

181. We propose that:

(a) a SPAC must distribute each of SPAC Shares and SPAC Warrants to a minimum of 75 Professional Investors (of either type[112]) of which 30 must be Institutional Professional Investors;

(b) a SPAC must distribute at least 75% of each of SPAC Shares and SPAC Warrants to Institutional Professional Investors.

182. We also propose that SPACs also meet the following current requirements:

(a) not more than 50% of securities in public hands at the time of a SPAC's listing can be beneficially owned by the three largest public shareholders;[113] and

(b) 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. These public float requirements would also apply on an ongoing basis.[114]

183. We seek respondents' views on whether the above proposals (set out in paragraphs 181 and 182) would provide sufficient liquidity to ensure an open market in the securities of a SPAC prior to the completion of a De-SPAC Transaction. We also seek respondents' views on whether there are any other measures that the Exchange should put in place to help ensure that an open and liquid market in SPAC securities is maintained.

Consequential exemptions due to restricted marketing of SPAC's initial offering

184. Due to restricted marketing requirements, we propose that a SPAC not have to:

(a) demonstrate that there will be sufficient public interest in the business of the SPAC and in the securities for which listing is sought[115];

(b) ensure that its securities are freely transferable by the public (but would have to

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[112] Institutional Professional Investors or Individual Professional Investors.

[113] Rule 8.08(3).

[114] As set out in Rule 8.08(1), including the discretion of the Exchange to accept a lower percentage of between 15% and 25% for issuers with an expected market capitalisation at the time of listing of over HK$10 billion. See Rule 8.24 on meaning of "public". As set out in Rule 8.24, the Exchange will not regard any core connected person of the issuer as a member of "the public" or shares held by such person as being "in public hands".

[115] Rule 8.07.

ensure that its securities are freely transferable between Professional Investors)[116]; or

(c) ensure a fair basis of allocation of the securities on offer to the public.[117]

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? Please give reasons for your views.
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? Please give reasons for your views.
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? Please give reasons for your views.
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? Please give reasons for your views.
Question 9	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 or are there other measures that the Exchange should use to help ensure an open and liquid market in SPAC securities? Please give reasons for your views.
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? Please give reasons for your views.

[116] Rule 8.13.

[117] Rule 8.23.

V. SPAC Share Issue Price

Jurisdictional comparison

185. In the US, NYSE and NASDAQ rules require a SPAC to have a minimum issue price of US$4.[118] However, SPACs listed there typically have a unit issue price of US$10. The previous and revised UK SPAC regime do not specify a minimum issue price for SPAC Units.

186. In Singapore, SGX initially proposed a minimum issue price for SPACs of S$10. The SGX Response Paper revised this to S$5 in light of the minimum issue price required in the U.S.[119] The SGX views the revised minimum issue price to be sufficiently high for retail investors to carefully consider the associated risks of investing in a SPAC but also affords SPAC Promoters with more commercial flexibility in pricing the SPAC Shares.

Proposals

187. A price of HK$10 or above will help ensure spreads for each price tick as a percentage of the price are small. This should help mitigate the relatively high price volatility sometimes associated with SPACs (see paragraphs 81 to 85).

188. We propose to require SPACs issue their SPAC Shares at an issue price of HK$10 or above.

Question 11	Do you agree that SPACs should be required to issue their SPAC Shares at an issue price of HK$10 or above? Please give reasons for your views.

VI. SPAC Fund Raising Size

Jurisdictional comparison

189. US exchanges do not set minimum size requirements for SPAC IPO fund raising but do, however, require applicants to have a minimum market capitalisation of US$50 million (HK$388 million), US$75 million (HK$ 583 million) or US$100 million (HK$776 million) for a listing on NASDAQ or NYSE, depending upon their choice of market segment.[120]

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[118] NASDAQ Rule 5405(a)(1); NASDAQ Rule 5505(a)(1)(A); and NYSE Listed Company Manual Section 102.06. For NYSE American, a minimum issue price US$2 is required (NYSE American Company Guide Section 102(b)).

[119] SGX Response Paper, paragraph 2.41, page 13.

[120] SPACs are required to have a minimum market capitalisation of US$75 million (HK$583 million) and US$50 million (HK$388 million) for a listing on NASDAQ Global Market and NASDAQ Capital Market, respectively; and US$100 million (HK$776 million) and US$50 million (HK$388 million) for a listing on NYSE and NYSE American respectively. (NASDAQ Rule 5405(b)(3)(A) and Rule 5505(b)(2)(A); NYSE Listed Company Manual Section 102.06; and NYSE American Company Guide Section 101(c)).

190. The UK initially proposed to set a minimum IPO fund raising size of UK$200 million (HK$2.1 billion) for its revised SPAC regime[121], but revised this to a lower threshold of UK$100 million (HK$1.1 billion) in the UK Conclusions Paper[122] in response to the market feedback that this better reflected the relative size of a De-SPAC Target in a UK context.

191. The SGX does not set a minimum IPO fund raising size for SPACs, but requires a market capitalisation threshold of S$150 million (HK$869 million).[123] This is lower than the originally proposed market capitalisation threshold of S$300 million (HK$1.7 billion), which a significant majority of the respondents considered too high in light of the relative size of De-SPAC Targets in Asia.[124]

Comments made in preliminary discussions with stakeholders

192. Most participants at our preliminary discussions stated that requiring a minimum fund raising size was prudent and that HK$1 billion was the right amount, having regard to the typical SPAC size in the US. Some believed that that amount was too high and that a SPAC would be able to make up any shortfall in the amount needed to conduct a successful De-SPAC Transaction through PIPE investment.

Proposals

193. We believe that setting a minimum fund raising amount both: (a) validates the reputation of the SPAC Promoter by showing that Professional Investors have faith in the SPAC Promoter's ability to complete a De-SPAC Transaction on favourable terms; and (b) helps ensure that De-SPAC Transactions will be of a sufficiently large size to result in Successor Companies that meet the minimum market capitalisation requirements for listing (taking into account redemptions and additional funding from PIPE investors).

194. Of the 12 Greater China and South East Asian companies that listed in the US via a De-SPAC Transaction in the last three years (see paragraph 109), only four (33%) did so via a SPAC that raised HK$1 billion or more from its IPO. However, these four De-SPAC Transactions had an average transaction value of approximately US$1.17 billion (HK$9.07 billion), which is higher than the average transaction value of approximately US$987 million (HK$7.65 billion) for all twelve transactions as a whole.

195. As we state above (see paragraph 141), we propose to set high entry points for SPAC listing and De-SPAC Targets. A HK$1 billion minimum fund raising threshold at a SPAC's initial offering should help ensure that SPACs have the funds available to them to seek good quality De-SPAC Targets that have a proportionately higher transaction value.

196. We therefore propose to require that the funds expected to be raised by a SPAC from

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[121] UK Consultation Paper, paragraphs 4.8 to 4.10.

[122] UK Conclusions Paper, paragraphs 2.6 to 2.9.

[123] SGX Response Paper, paragraph 2.33, page 11.

[124] SGX Response Paper, paragraph 2.10, page 7.

its initial offering at the time of its listing must be at least HK$1 billion.

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? Please give reasons for your views.

VII. Warrants

Jurisdictional comparison

197. In the US, NYSE rules expressly require that, where a SPAC offers units at listing, the warrant component of the units meet applicable initial listing standards.[125]

198. The UK SPAC regime (previous and revised) does not regulate SPAC Warrants, other than requiring that the terms of the warrants are disclosed in the SPAC's IPO prospectus to ensure investors can make an informed assessment of them.[126]

199. SGX requires that warrants (or other convertible securities) issued by a SPAC in connection with the SPAC IPO or prior to completion of a De-SPAC Transaction must meet its existing requirements for the issue of warrants.[127] In addition, these securities must meet the following requirements:

(a) their exercise price must not be lower than the price of the ordinary shares offered for the IPO;

(b) they must not be exercisable prior to the completion of a De-SPAC Transaction;

(c) they must not have entitlement to liquidation distribution and redemption; and

(d) their tenure must expire on the earlier of: (i) the maximum tenure under the issuance terms as stated in the prospectus; or (ii) the maximum permitted time frame for completion of a De-SPAC Transaction.[128]

Comments made in preliminary discussions with stakeholders

200. Several participants at the preliminary discussions stated that the ability to trade SPAC Warrants incentivizes some institutional investors to participate in the SPAC IPO (e.g. hedge funds) and so helps ensure that the SPAC is able to raise sufficient funds for the De-SPAC Transaction.

Proposals

201. As we explain in Chapter 4 above (see paragraphs 120 to 121), the share price of a SPAC is likely to be driven by speculation and rumour, particularly with regards to the potential outcome of the SPAC's efforts to find a suitable De-SPAC Target. SPAC

[125] NYSE Listed Company Manual Section 102.06(f).

[126] UK Consultation Paper, paragraph 4.26.

[127] SGX Mainboard Rules, Chapter 8, Part VI.

[128] SGX Mainboard Rule 210(11)(j).

Warrants prices are likely to be more volatile than that of SPAC Shares (see paragraph 85). Also, when exercised, Promoter Warrants and SPAC Warrants will dilute the number of SPAC Shares in issue.

202. For these reasons, we propose to apply our existing requirements to SPAC Warrants and Promoter Warrants, as set out in Chapter 15 and Practice Note 4 of the Listing Rules, with the following modifications:

(a) all Promoter Warrants and SPAC Warrants must be approved by the Exchange prior to the issue or grant thereof and, after a SPAC's initial offering, by shareholders[129];

(b) all Promoter Warrants and SPAC Warrants must expire not less than one and not more than five years from the date of completion of a De-SPAC Transaction and must not be convertible into further rights to subscribe for securities which expire less than one year or more than five years after the date of the completion of a De-SPAC Transaction[130];

(c) the material terms of Promoter Warrants and SPAC Warrants, including (i) the maximum number of securities to be issued upon exercise thereof; (ii) the exercise period and the exercise price; (iii) the arrangement for transfer of the warrants; (iv) the arrangement for the variation in the subscription or purchase price or the number of securities; and (v) rights of holders upon the SPAC's liquidation and to participate in any distributions and/or offer of securities, must be disclosed in the Listing Document published by the SPAC for the purpose of its listing[131]; and

(d) alterations of the terms of Promoter Warrants and SPAC Warrants after issue or grant must be approved by the Exchange, except where such alterations take effect automatically under the terms of such warrants.[132] Any alteration of terms of Promoter Warrants and SPAC Warrants must comply with Practice Note 4 of the Listing Rules, including the requirement for approval by shareholders.[133]

203. We propose to require that Promoter Warrants and SPAC Warrants be exercisable only after the completion of a De-SPAC Transaction. We consider this proposal consistent with the market practice (see paragraphs 26 and 44).

204. To reduce the risk of a misalignment of interests between SPAC Promoter(s) and SPAC shareholders, we also propose that a SPAC must not issue Promoter Warrants at less than fair value and must not issue Promoter Warrants that contain terms more favourable than those of SPAC Warrants (see paragraph 44).

205. For this purpose, more favourable terms would include: (a) an exception from the

[129] Rule 15.02.

[130] Rule 15.02(2).

[131] Rule 15.03.

[132] Rule 15.06.

[133] Paragraph 4C of Practice Note 4 of the Listing Rules.

forced exercise of the warrants if the shares of the Successor Company trade above a prescribed price (see paragraph 44); (b) the ability to exercise on a cashless basis; and (c) a more favourable warrant to share conversion ratio.

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? Please give reasons for your views.
Question 14	Do you agree that Promoter Warrants and SPAC Warrants should be exercisable only after the completion of a De-SPAC Transaction? Please give reasons for your views.
Question 15	Do you agree that a SPAC must not issue Promoter Warrants at less than fair value and must not issue Promoter Warrants that contain more favourable terms than that of SPAC Warrants? Please give reasons for your views.

(B) SPAC PROMOTERS AND SPAC DIRECTORS

I. SPAC Promoters

Jurisdictional comparison

206. NYSE rules[134] state that it may consider, among other factors, the experience and/or track record of SPAC Promoters when assessing the suitability for listing of SPACs.

207. The UK SPAC regime (previous and revised) does not require a suitability assessment on the part of SPAC Promoters.

208. SGX considers the track record and repute of the founding shareholders and experience and expertise of the management team of a SPAC when assessing the suitability of the SPAC for listing.[135] It also requires that, where there is a material change in relation to the profile of the founding shareholders and/or the management team that may be critical to the successful completion of the business combination, approval by a special resolution of independent shareholders should be required for such material change in order for the SPAC to continue its listing, failing which the SPAC must be liquidated.[136]

209. The SGX Response Paper also stipulates that SPAC Promoters and SPAC directors must, in aggregate, subscribe for a minimum value of equity securities equivalent to a percentage range from 2.5% to 3.5% of a SPAC's market capitalisation at the time of listing.[137]

210. None of the US, UK and Singapore requires SPAC Promoters or SPAC directors to have specified qualifications or possess any license.

Comments made in preliminary discussions with stakeholders

211. Participants at our preliminary discussions with stakeholders agreed that SPAC Promoters should have to meet suitability and eligibility requirements. As SPACs are newly-formed cash companies without a track record of operations, several emphasised that greater reliance is therefore placed, by investors, on the quality of the SPAC Promoters to act in their best interests.

Proposal

212. As SPACs do not have a track record of operational performance, they differentiate themselves based, primarily, upon the experience and reputation of the SPAC

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[134] NYSE Listed Company Manual 102.06 (f).

[135] SGX Response Paper, Practice Note 6.4 "Requirements for Special Purpose Acquisition Companies", paragraphs 2.1 and 2.2 on page 80.

[136] SGX Response Paper, paragraph 4.5 on page 52.

[137] For a SPAC with a market capitalisation (a) from S$150 million to S$300 million; (b) S$300 million to S$500 million and (c) more than S$500 million, the percentage of minimum equity participation would be 3.5%, 3% and 2.5%, respectively. See SGX Response Paper, paragraph 2.136 on page 34.

Promoter, on which investors primarily rely when deciding to invest in the SPACs. A skilled and experienced SPAC Promoter is more likely to be able to identify a suitable De-SPAC Target and negotiate De-SPAC Transaction terms favourable to SPAC Investors. Also, a SPAC Promoter is in a position of trust with regard to the funds raised from investors and would be expected to act in the best interests of investors' as a whole regarding the use of those funds.

Character, experience and integrity of a SPAC Promoter

213. We propose to require that, at listing and until the completion of a De-SPAC Transaction, the Exchange be satisfied as to the character, experience and integrity of each SPAC Promoter and that each SPAC Promoter is capable of meeting a standard of competence commensurate with their position.

214. We propose to publish guidance setting out the information shown in Box 1 below that a SPAC, for its initial listing, must provide to the Exchange for each SPAC Promoter. The Exchange will use this information to determine the suitability of each SPAC Promoter. The Exchange will reserve the right to request further information regarding any proposed SPAC Promoter's background, experience or other business interests.

Box 1: Information to be Provided for each SPAC Promoter:

SPAC Promoter Experience

(a) Their experience as a SPAC Promoter including the number of years of experience and the names of the SPACs they have promoted.

(b) For each of the SPACs referred to in (a):

- (i) the amount of funds raised at its IPO;
- (ii) a description of the types of target sought for De-SPAC Transaction (e.g. size and sector);
- (iii) the size and terms of the Promote;
- (iv) the time that elapsed between the date of the SPAC's IPO and the date of the completion of any De-SPAC Transaction;
- (v) the amount of funds raised in any PIPE investment;
- (vi) a summary description of the De-SPAC Target that was the subject of any De-SPAC Transaction;
- (vii) the percentage of SPAC shareholders that redeemed their shares prior to any De-SPAC Transaction;
- (viii) the percentage of SPAC shareholders that voted against any De-SPAC Transaction;
- (ix) details of the terms of any De-SPAC Transaction (including consideration);
- (x) the percentage of any value dilution to non-redeeming SPAC

shareholders upon exercise of all SPAC Warrants and conversion of all Promoter Shares and all Promoter Warrants in the Successor Company;

(xi) the market capitalisation of the Successor Company following any De-SPAC Transaction;

(xii) performance indicators of the Successor Company since any De-SPAC Transaction occurred (absolute performance indicators and performance relative to that of relevant indexes); and

(xiii) whether the SPAC was liquidated and its funds was returned to SPAC Investors.

Investment Management Experience

(c) Any experience in the professional management of investments on behalf of third party investors and/ or provision of investment advisory services to professional/ institutional investors, including, for each role, a description of:

(i) the role and its responsibilities;

(ii) the types and geographical coverage of the investments managed;

(iii) the fund size;

(iv) the fund's investment objectives and policies; and

(v) performance indicators such as the net asset value of the managed funds; their absolute performance; and their relative performance compared to that of other major managed funds and relevant indexes.

Other Relevant Experience

(d) Any other experience relevant to the role of SPAC Promoter in the SPAC seeking a listing (e.g. managing businesses in the sectors in which the SPAC aims to identify targets) with an explanation of how this work experience is relevant to a SPAC Promoter role.

Other Information to be Provided

(e) Details of licences held including the year they were obtained and the granting institutions.

(f) Details of any other business interests, particularly those that compete or are likely to compete: (1) either directly or indirectly with the SPAC for prospective De-SPAC Targets; and/or (2) in the sectors in which the SPAC will seek to find De-SPAC Targets.

(g) Any breaches of laws, rules and regulations and any other matters which have a bearing on the integrity and/ or competence of the SPAC Promoter.

215. A SPAC must include the information listed in Box 1 in the Listing Document it produces for the purpose of its listing and updated to the latest practicable date.

216. For the reasons we explain above (see paragraphs 9 to 13), the Exchange is aiming

to list SPACs managed by SPAC Promoters that meet higher than average standards of ability and experience. Our proposed guidance will state that we will view favourably SPAC Promoters that can demonstrate that they have experience:

(a) managing assets with an average collective value of at least HK$8 billion over a continuous period of at least three financial years; or

(b) holding a senior executive position (e.g. Chief Executive or Chief Operating Officer) at an issuer that is or has been a constituent of the Hang Seng Index[138] or an equivalent flagship index.

Licensing requirements

217. To help ensure high quality SPAC Promoters and better alignment of interest with other SPAC Investors, we propose that, at listing and on an ongoing basis for the lifetime of the SPAC, at least one SPAC Promoter must be a firm that holds (i) a Type 6 (advising on corporate finance) and/or a Type 9 (asset management) license issued by the SFC[139] ; and (ii) at least 10% of the Promoter Shares.

Material change in SPAC Promoters

218. In light of the critical role that SPAC Promoters play in identifying suitable acquisition targets and the reliance placed upon the SPAC Promoters by investors, we propose that, in the event of a material change in the SPAC Promoter managing a SPAC or the eligibility and/or suitability of a SPAC Promoter, such 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). Examples of such a material change include:

(a) the departure or addition of a SPAC Promoter;

(b) a change in control of a SPAC Promoter;

(c) the revocation of a SPAC Promoter's license(s) issued by the SFC;

(d) breaches of laws, rules and regulations and any other matters bearing on the integrity and/or competence by a SPAC Promoter; and

(e) any other changes the Exchange may consider relevant to the eligibility and/or suitability of a SPAC Promoter.

219. We also propose that, prior to the vote on a material change in SPAC Promoters, holders of SPAC Shares be given the opportunity to elect to redeem their shares at the price at which they were issued in the SPAC's initial offering, plus accrued interest. See below for our proposals on redemptions and the redemption process (see paragraphs 349 to 361).

220. We also propose that if a SPAC fails to obtain the requisite shareholder approval within one month of the material change, the trading of a SPAC's securities will be suspended and the SPAC must return the funds it raised from its initial offering to its shareholders,

[138] See https://www.hsi.com.hk/eng/indexes/all-indexes/hsi.

[139] As stipulated by Schedule 5 to the SFO.

liquidate and de-list in accordance with the requirements set out below (see paragraphs 435 and 436).

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? Please give reasons for your views.
Question 17	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, or is there additional information that should be provided or information that should not be required regarding each SPAC Promoter's character, experience and integrity? Please give reasons for your views.
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? Please give reasons for your views.
Question 19	Do you agree that at least one SPAC Promoter must be a firm that holds: (i) a Type 6 (advising on corporate finance) and/or a Type 9 (asset management) license issued by the SFC; and (ii) at least 10% of the Promoter Shares? Please give reasons for your views.
Question 20	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) and if it fails to obtain the requisite shareholder approval within one month of the material change, the trading of a SPAC's securities will be suspended and the SPAC must 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)? Please give reasons for your views.

II SPAC Directors

221. In addition to the current requirements for directors set out in the Listing Rules (including their fiduciary duties and character, experience and integrity requirements)[140], 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.[141]

222. We propose this to ensure that SPAC Promoters are held accountable for the SPAC's performance and have fiduciary duties of skill, care and diligence to SPAC Investors and the SPAC as a whole.

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? Please give reasons for your views.

[140] See, principally, Chapter 3 of the Listing Rules.

[141] See types of licensed individual list on the SFC website.

(C) CONTINUING OBLIGATIONS

I. Funds Held in Trust

Jurisdictional comparison

223. US stock exchange rules require 90% of gross SPAC IPO proceeds to be held in an escrow account by an independent custodian, an "insured depository institution"[142] or in a separate account established by a registered broker or dealer.[143]

224. The UK Conclusions Paper requires that a SPAC ring-fence IPO proceeds raised from public shareholders, part of which could be retained to fund the SPAC's operations, provided that the specified amount should be disclosed in the SPAC prospectus.[144] To provide flexibility, the paper states that the UK FCA does not propose to specify that a minimum percentage of SPAC IPO proceeds to be ring-fenced or that the proceeds be held in trust or an escrow account.[145]

225. The SGX Response Paper states that SPACs are required to (i) place 90% of their gross SPAC IPO proceeds in a trust account opened with and operated by an independent escrow agent which is part of a licensed financial institution approved by the Monetary Authority of Singapore; and (ii) invest the proceeds in cash or cash equivalent short-dated securities of at least A-2 rating until the completion of the De-SPAC Transaction.[146]

Comments made in preliminary discussions with stakeholders

226. Participants at our preliminary discussions agreed that SPAC IPO funds should be ring-fenced and held in a trust account and commented that this would be in line with US practice.

Proposals

227. We believe it is important to ensure that sufficient protections are placed around the funds raised by SPACs so that they are available to return to shareholders who choose to redeem their shares or to return to shareholders if and when the SPAC is liquidated.

228. We propose to require that 100% of the gross proceeds of a SPAC's initial offering (excluding proceeds raised from the issue of Promoter Shares and Promoter Warrants) be held in a ring-fenced trust account located in Hong Kong.

229. 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 UT

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[142] As defined in Section 3(c)(2) of the Federal Deposit Insurance Act.

[143] NASDAQ IM-5101-2(a); NYSE Listed Company Manual Section 102.06; and NYSE American Company Guide Section 119(a).

[144] UK Listing Rule 5.6.18AG(2).

[145] UK Conclusions Paper, paragraphs 2.10 to 2.12.

[146] SGX Response Paper, paragraphs 2.96 and 2.98 on page 25.

Code.[147]

230. We propose 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.[148]

231. We propose that these funds held in trust must not be released other than to: (a) meet redemption requests of SPAC shareholders that have elected to redeem their SPAC Shares; (b) complete a De-SPAC Transaction or (c) return funds to SPAC shareholders (upon the events referred to in paragraph 435).

232. To ensure all expenses incurred by the SPAC are borne by the SPAC Promoter, interest income on the funds held in trust could also not be released to a SPAC (e.g. to settle the SPAC's tax obligations), other than in the circumstances described in the preceding paragraph.

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? Please give reasons for your views.
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? Please give reasons for your views.
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? Please give reasons for your views.

[147] The trustee/custodian must be (a) a bank licensed under the Banking Ordinance (Cap.29); (b) a trust company registered under Part VIII of the Trustee Ordinance (Cap.155), which is a subsidiary of such a bank or banking institution under (d); (c) a trust company which is a trustee as defined in section 2(1) of the Mandatory Provident Fund Schemes Ordinance (Cap.485); or (d) a banking institution incorporated outside Hong Kong which is subject to prudential regulation and supervision on an ongoing basis, or an entity which is authorised to act as a trustee / custodian of a scheme and potentially regulated and supervised by an overseas supervisory authority acceptable to the SFC.

[148] The proposed grades are based on the lower grade under Credit Quality Grade 1 for Short Term Exposures extracted from Annex C to the SFC's Code of Conduct, and also consistent with the local currency short-term credit ratings for HKSAR Government Bond Programme.

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? Please give reasons for your views.

II. Promoter Shares and Promoter Warrants

233. The allocation of Promoter Shares is known as "the Promote" and incentivizes the SPAC Promoter to successfully complete a De-SPAC Transaction. The SPAC Promoter will pay a minimal amount for Promoter Shares that will convert into SPAC Shares at the time of the De-SPAC Transaction (see paragraphs 39 to 41).

234. A SPAC Promoter will normally purchase Promoter Warrants as part of a unit or on a standalone basis of a value that is enough to cover the underwriting fees for the SPAC's initial offering, other offering expenses and the expenses needed to search for and identify a De-SPAC Target (see paragraphs 42 to 44).

Jurisdictional comparison

235. In the US, Promoter Shares are subject to contractual transfer restrictions, and their resale either needs to be registered under the Securities Act or be made in reliance on an exemption from registration.

236. Promoter Warrants are classified as "restricted securities" and so may not be resold in the market. In addition, the SPAC Promoter usually agrees not to transfer or sell the Promoter Warrants until 30 days after the completion of a De-SPAC Transaction.

237. No restrictions are placed or proposed to be placed on the issue and transfer of Promoter Shares and Promoter Warrants in the UK.

238. The SGX Response Paper requires that founding shareholders, the management team, the controlling shareholders and their respective associates observe a moratorium on the transfer or disposal of all or part of their direct and indirect effective shareholding interest held in the SPAC as at the date of the SPAC's listing until the completion of a De-SPAC Transaction.[149]

Proposals

239. As a SPAC is a newly-formed cash company without a track record of operations, the future success of a SPAC will depend on the SPAC Promoter finding a suitable De-SPAC Target and negotiating De-SPAC Transaction terms that are favourable to SPAC Investors. A SPAC Promoter is economically incentivised to do so by the Promote. Consequently, we believe it should not be possible for the Promote to pass into the hands of persons who are not the SPAC Promoter.

[149] SGX Response Paper, paragraph 2.147 on page 37.

Restriction on issue of Promoter Shares and Promoter Warrants

240. We propose that only a SPAC Promoter be able to beneficially hold Promoter Shares and Promoter Warrants at listing and thereafter.

Restrictions on transfer of Promoter Shares and Promoter Warrants

241. We propose that Promoter Shares and Promoter Warrants must not be eligible for listing and that a SPAC must not certify the transfer of the legal ownership of any Promoter Shares or Promoter Warrants[150] to a person other than the person to whom they were originally issued. We propose that a SPAC Promoter who is allotted, issued or granted any Promoter Shares or Promoter Warrants must remain as the beneficial owner of the Promoter Shares or Promoter Warrants at listing of the SPAC and thereafter.

242. We propose that a limited partnership, trust, private company or other vehicle may hold Promoter Shares and/or Promoter Warrants on behalf of a SPAC Promoter provided that such an arrangement does not result in a transfer of beneficial ownership.

Restrictions on dealing in SPAC securities

243. In Chapter 5 we explain the heightened risk of insider dealing in the securities of a SPAC (see paragraphs 126 to 128). Due to this heightened risk, we propose to prohibit a SPAC Promoter (including its directors and employees), SPAC directors and SPAC employees, and their respective close associates, from dealing in any of the SPAC's securities prior to the completion of a De-SPAC Transaction. This would mean that these persons should not deal in SPAC Shares, SPAC Warrants, Promoter Shares or Promoter Warrants during this period.

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? Please give reasons for your views.
Question 27	If your answer to Question 26 is "Yes", 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? Please give reasons for your views.

[150] Including any transfer of economic interest in those securities or control over the voting rights attached to them (through voting proxies or otherwise).

III. Trading Halts and Suspensions

Jurisdictional comparison

244. The US and Singapore apply the same trading halt and suspension requirements that they apply to other listed issuers to address the risk to a fair and informed market if a SPAC is unable to maintain confidentiality with regards to business negotiations.[151]

245. Prior to the UK's recent consultation on SPACs, the UK Listing Rules took a more conservative approach and stated that a SPAC must contact the UK FCA as soon as a De-SPAC Transaction is "in contemplation" to discuss whether a suspension is appropriate.[152] In these circumstances, the UK FCA would apply a "rebuttable presumption" that there was insufficient publicly available information about the proposed transaction in the market and that the SPAC would be unable to assess accurately its financial position and inform the market accordingly. If the SPAC was unable to satisfy the UK FCA this is not the case, the UK FCA would be suspend the SPAC's listing.[153]

246. In view of the UK FCA's objectives and recent market developments (including recommendations from the UK Listing Review), the revised UK Listing Rules state that, the UK FCA will generally be satisfied that a suspension is not required if a SPAC meets certain criteria including: meeting a minimum initial public offering size (see paragraph 190); setting a two year deadline to complete a De-SPAC Transaction (see paragraph 418); providing clear disclosure of the structure and arrangements of the SPAC; obtaining shareholder approval for a De-SPAC Transaction (see paragraph 316); and the provision of a redemption option for SPAC shareholders (see paragraph 345).[154]

Comments made in preliminary discussions with stakeholders

247. Participants at these discussions largely agreed that the Exchange should follow its existing trading halt and suspension requirements to manage potential leaks of negotiations with De-SPAC Targets.

Proposals

248. We believe that following our existing requirements will maximize the time during which the SPAC's listed securities will be available to trade whilst providing protection to shareholders from uneven distribution of Inside Information. We therefore propose to

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[151] NYSE Listed Company Manual Section 202.06; NASDAQ Rule IM-5250-1; and SGX Mainboard Rule 1303.

[152] UK Listing Rule 5.6.6R(1). Examples of where the FCA will consider that a reverse takeover is in contemplation include situations where: (1) the SPAC has approached the De-SPAC Target's board; (2) the SPAC has entered into an exclusivity period with a De-SPAC Target; or (3) the SPAC has been given access to begin due diligence work (whether or not on a limited basis) (UK Listing Rule 5.6.7G).

[153] UK Consultation Paper, paragraph 3.14.

[154] UK Listing Rule 5.6.18AG.

apply our existing trading halt and suspension policy to SPACs.[155]

249. This would mean that a SPAC would be required, as soon as reasonably practicable, to apply to the Exchange for a trading halt (where an announcement cannot be made promptly) if it reasonably believes or it is reasonably likely that confidentiality may have been lost in respect of Inside Information regarding De-SPAC Transaction negotiations.

250. To maintain a fair, orderly and continuously trading market the Exchange would also expect a SPAC to take effective and appropriate measures to preserve confidentiality of such information including, for example, execution of enforceable confidentiality undertakings and use of code names in circulating draft documents amongst professional parties. A SPAC must also meet their obligations under Part XIVA of the SFO.

251. The Exchange will only agree to a trading halt if there appears to be a reasonable concern on the leakage of Inside Information and/or practical difficulty in maintaining confidentiality. Resumption of trading, in the majority of cases, would take place from the next immediate trading window following publication of Inside Information by the SPAC.

Question 29	Do you agree that the Exchange should apply its existing trading halt and suspension policy to SPACs (see paragraphs 249 to 251)? Please give reasons for your views.

[155] As set out in Rule 6.02 to 6.10A and Guidance Letter HKEx-GL83-15 “Guidance on Trading Halts”.

(D) DE-SPAC TRANSACTION REQUIREMENTS

I. Application of New Listing Requirements

Jurisdictional comparison

252. US exchanges apply stringent eligibility requirements to the Successor Company that results from a De-SPAC Transaction. Also US due diligence and documentary requirements for a De-SPAC Transaction are comparable to that required for an IPO.[156]

253. NASDAQ requires that a Successor Company meet its full initial listing requirements.[157] NYSE rules state that a Successor Company must meet certain minimum share price, market capitalisation and shares in public hands requirements.[158] NYSE will also assess the listing application to determine whether the transaction is a "backdoor listing" (an attempt to circumvent its initial listing requirements). NYSE will apply its full initial listing requirements to the Successor Company if it determines this to be the case.[159]

254. Both NYSE and NASDAQ will initiate the suspension and delisting of Successor Companies that fail to meet the requirements set out above.

255. Under the UK SPAC regime (previous and revised), a Successor Company is required to fulfil initial listing requirements applicable to the listing category (premium or standard) to which its shares are to be admitted.[160] As the UK Listing Rules consider a De-SPAC Transaction to be an RTO, its documentary and due diligence requirements for the transaction are equivalent to that required for an IPO. If the Successor Company is seeking to list through premium listing, an IPO Sponsor must be appointed.[161]

256. SGX requires that the Successor Company resulting from a De-SPAC Transaction meet initial listing requirements.[162] The SGX Response Paper states that a financial

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[156] It should be noted that the US does not have a Hong Kong "IPO Sponsor regime" equivalent and does not require the appointment of an IPO Sponsor for either IPOs or De-SPAC Transactions.

[157] NASDAQ allows companies seeking an initial listing to choose from a wide range of financial eligibility tests and offers a choice of three segments: Nasdaq Global Select Market (with the most stringent tests); Nasdaq Global Market; and Nasdaq Capital Market (with the least stringent tests) (NASDAQ IM-5101-2(d)).

[158] Immediately upon consummation of a De-SPAC Transaction, the Successor Company must have: (i) a price per share of at least US$4.00 (HK$31); (ii) a global market capitalisation of at least US$150,000,000 (HK$1.165 billion); (iii) an aggregate market value of publicly-held shares of at least US$40,000,000 (HK$311 million); and meet (iv) the requirements with respect to shareholders and publicly-held shares for companies listing in connection with an initial public offering (NYSE Listed Company Manual Section 802.01B, "Criteria for Acquisition Companies").

[159] NYSE Listed Company Manual Section 802.01B, "Criteria for Acquisition Companies" and Section 703.08(E).

[160] Financial eligibility requirements for a premium listing or a standard listing are minimal. An applicant is not required to demonstrate minimum revenue or profit and must meet a minimum market capitalisation at listing of only GBP700,000 (HK$7.5 million) (UK Listing Rule 2.2.7).

[161] UK Listing Rule 8.2.1.

[162] SGX Response Paper, paragraph 4.34 on page 59.

adviser (an accredited issue manager equivalent to an IPO Sponsor) must be appointed to perform due diligence with regards to a De-SPAC Transaction that is commensurate with that required for an IPO. The SGX's documentary requirements for a De-SPAC Transaction are the same as that required for an IPO.[163]

Comments made in preliminary discussions with stakeholders

257. Some stakeholders argued that the absence of quantitative financial eligibility requirements for De-SPAC Targets was one of the key advantages of SPACs and a reason for their popularity. Other stakeholders stated that a requirement for IPO Sponsor appointment would reduce De-SPAC deal speed, another key advantage of SPACs over IPOs.

258. Stakeholders also stated the appointment of an IPO Sponsor to perform due diligence on De-SPAC Transactions would reduce deal certainty because the result of negotiations between SPAC Promoters and the De-SPAC Target would be subject to the uncertainty of the IPO Sponsor's findings. They argued that protection from the listing of sub-standard assets and/or businesses could be better governed by lock-ups (including earn-out lock-ups) negotiated as part of a De-SPAC deal.

Proposals

259. As set out above (see paragraphs 252 and 253), US exchanges apply stringent listing eligibility requirements to the Successor Company that results from a De-SPAC Transaction that are close to or equal to their new listing requirements. However, US exchanges (particularly NASDAQ) provide applicants for new listing with a wide choice of financial eligibility tests and market segments, increasing the chance that a Successor Company will be able to satisfy the requirements of at least one of them.

260. A De-SPAC Transaction will result in the new listing of a business and assets. So, similar to the approach taken in the US and UK, we propose to consider the transaction in the same way as an RTO (i.e. a deemed new listing), including the application of our IPO Sponsor due diligence requirements.[164] This addresses the risk that SPACs could be used to circumvent the quantitative and qualitative criteria for a new listing. Allowing such a circumvention to occur is likely to result in the listing of sub-standard businesses and/or assets. This would reduce the quality and reputation of the Hong Kong market as a whole (see paragraph 133).

Suitability and Eligibility Requirements

261. We propose to apply new listing requirements to De-SPAC Transactions. This would mean that the Successor Company would need to meet all new listing requirements (including minimum market capitalisation requirements[165] and financial eligibility

[163] SGX Response Paper, paragraph 4.35 on page 60.

[164] Practice Note 21 to the Listing Rules; and Paragraph 17 of the SFC's Code of Conduct.

[165] Rule 8.09(2); or Rule 8A.06 (for listings with a WVR Structure); or Rule 18A.03(2) (for listings of Biotech Companies).

tests[166]).

262. The Listing Rules currently require that the target of an RTO meet the financial eligibility tests of a new listing. Separately, the company that results from the RTO must meet all new listing requirements except the financial eligibility tests.[167] This approach ensures that the target can meet financial eligibility tests on a standalone basis without the positive or negative impact of including the financial track record of the listed issuer conducting the transaction.

263. A SPAC is a cash shell that does not have any business operations and its financial track record would not have a significant positive or negative impact on the outcome of financial eligibility tests. So, we believe there is no need to require that a De-SPAC Target separately meet the financial eligibility tests of a new listing. Instead we propose that all new listing requirements (including the financial eligibility tests) apply to the Successor Company alone.

Management continuity and ownership continuity requirements

264. A Successor Company would need to fulfil management continuity and ownership continuity requirements applicable to a new listing. Consequently, in the circumstances of a De-SPAC Transaction involving multiple De-SPAC Targets, these targets must be a group of companies under the same management and ownership for the applicable track record period.

IPO Sponsor Appointment

265. IPO Sponsors are a feature of the Hong Kong listing regime that is not present in the US. In Hong Kong, IPO Sponsors help in the preparation of a new applicant's Listing Documents, conduct reasonable due diligence inquiries, ensure listing application procedures are complied with and use reasonable endeavours to address all matters raised by the Exchange in connection with a listing application (amongst other responsibilities).[168]

266. We propose that a Successor Company appoint at least one IPO Sponsor to assist it with its application for listing.[169] The IPO Sponsor(s) must be formally appointed at least two months prior to the date of the listing application.[170]

267. If an issuer is considering an application for listing via a traditional IPO at the same time as it is considering listing via a SPAC (i.e. it is taking a "dual-track" approach to listing), then the Exchange would take into account the due diligence performed by the IPO Sponsor during the whole dual-track process for the purpose of considering whether the minimum engagement period of two months has been satisfied. However, the IPO Sponsor must be formally engaged by the Successor Company for the purpose

[166] Rule 8.05; 8.05A; or 8.05B.

[167] Rule 14.06C(2) and Rule 14.54(1).

[168] See Rule 3A.11.

[169] See Chapter 3A of the Rules.

[170] In line with Rule 3A.02B.

of its listing application.

268. At least one IPO Sponsor appointed by the Successor Company must meet the impartiality and independence requirements set out in Chapter 3A of the Rules.

Due Diligence Requirements

269. The SPAC would be required to provide sufficient information to the Exchange to demonstrate that the Successor Company meets listing track record requirements, including financial information of the De-SPAC Target based on an accountant's report.

270. The appointed IPO Sponsor(s) must conduct IPO Sponsor due diligence [171] to put itself in a position to be able to make the declaration (forming Appendix 19 to the Rules) that, amongst other matters: (a) the Successor Company is in compliance with all the conditions in Chapter 8 of the Rules; and that the Successor Company's Listing Document contains sufficient information to enable a reasonable person to form a valid and justifiable opinion on the financial condition and profitability of the Successor Company.[172]

Documentary Requirements

De-SPAC Announcement

271. A SPAC would be required to announce the De-SPAC Transaction once its terms have been finalised. This announcement must contain all the information required by the Rules for transactions and RTOs.[173] The Exchange may issue guidance, from time-to-time, on contents requirements that are specific to De-SPAC Announcements.

272. The announcement of a De-SPAC Transaction must be submitted to the Exchange prior to publication and not published until the Exchange has no further comments on the announcement.[174]

273. The SPAC must state in the De-SPAC Announcement when it expects the Listing Document to be issued.[175]

274. We propose that a De-SPAC Transaction comply with all other applicable Listing Rules requirements for transactions.[176]

Listing document requirements

275. We propose that a De-SPAC Transaction comply with the procedures and requirements for new listing applications as set out in Chapter 9 of the Rules.[177] This means that:

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[171] In accordance with the requirements under Practice Note 21 of the Listing Rules; and Paragraph 17 of the SFC's Code of Conduct.

[172] See Appendix 19 to the Rules.

[173] In line with Rule 14.58,14.60, 14.61 and 14.62.

[174] In line with Rule 13.52(2).

[175] In line with Rule 14.57.

[176] In line with Rules 14.34 to 14.37, 14.54 to 14.57 and 14.57A.

[177] In line with Rule 14.57.

(a) the SPAC must submit an application for listing (Form A1) to be completed by an IPO Sponsor with an advanced proof of a "substantially complete" Listing Document;[178] and

(b) the Listing Document must not be issued until the Exchange has confirmed to the SPAC that it has no further comments on the document.[179]

276. The Listing Document issued for the De-SPAC Transaction must contain all the information required for a new listing applicant and the information required for an RTO.[180]

277. The Listing Document must be despatched to SPAC shareholders at the same time as or before the listed issuer gives notice of the general meeting to approve the De-SPAC Transaction (see paragraphs 320 to 322).[181]

278. Given the open market requirement required for a Successor Company (see paragraph 380), we view the De-SPAC Transaction as equivalent to an offering to the public and accordingly, we would require the Listing Document issued for the De-SPAC Transaction to fulfil the relevant prospectus requirements[182] (including, in particular, the disclosure requirements under CWUMPO).

Listing Approval

279. We propose that the terms of a De-SPAC Transaction include a condition that the transaction must not complete unless listing approval for the Successor Company is granted by the Exchange.

280. As we explain above (see paragraphs 136 and 137), a SPAC Promoter may be incentivized to complete a De-SPAC Transaction even if it would not be in the best interests of the SPAC's shareholders as a whole. Our proposal would prevent the completion of a De-SPAC Transaction that results in a Successor Company which has not obtained listing approval. We believe such an outcome would not be in the interests of SPAC shareholders as it would not satisfy the premise on which the SPAC was listed and on which its shareholders invested.

Initial Listing Fee

281. A SPAC must pay the Exchange a non-refundable initial listing fee in connection with the De-SPAC Transaction.[183]

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[178] In line with Rule 9.03(1) and (3).

[179] In line with Rule 9.07.

[180] See Rules 14.63 and 14.69.

[181] In line with Rule 14.57.

[182] Third Schedule of CWUMPO.

[183] In line with Rule 14.57. A SPAC will also be required to an initial listing fee in connection with its own listing. See Appendix 8 of the Listing Rules for initial listing fee amounts.

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? Please give reasons for your views.

II. Eligibility of De-SPAC Targets

Jurisdictional comparison

282. In US and UK, no restrictions are imposed on the types of targets that a SPAC can approach, as long as the Successor Company fulfils applicable requirements.[184] The SGX also expressly contemplates De-SPAC Transactions involving life science companies and mineral, oil and gas companies.[185]

Comments made in preliminary discussions with stakeholders

283. Some participants at our preliminary discussions asked that we explicitly clarify that Biotech Companies would be eligible De-SPAC Targets as they were often the subject of De-SPAC Transactions in the US by SPAC Promoters with expertise in the biotech industry.

Proposals

284. SPACs potentially provide an alternative route to listing to that of a traditional IPO for De-SPAC Targets with business operations. We propose that an investment company (as defined by Chapter 21 of the Listing Rules) would not be an eligible De-SPAC Target as these are listed under a regime that is already separate and distinct from that of a traditional IPO.

285. For the avoidance of doubt, Biotech Companies and mineral companies would be eligible De-SPAC Targets. This is on the basis that they comply with the new listing requirements applicable to them. A SPAC could also become a Successor Company with a WVR structure through a De-SPAC Transaction, as long as the De-SPAC Target and the structure resulting from the De-SPAC Transaction met all applicable requirements of the Listing Rules.

Question 31	Do you agree that investment companies (as defined by Chapter 21 of the Listing Rules) should not be eligible De-SPAC Targets? Please give reasons for your view.

[184] NYSE Listed Company Manual Section 802.01B; and NASDAQ IM-5101-2(d).

[185] SGX Consultation Paper Question 15(b).

III. Size of De-SPAC Target

Jurisdictional comparison

286. US stock exchanges generally require that the fair market value of the De-SPAC Target to be at least 80% of the proceeds held in trust.[186] SGX imposes the same requirement.[187] There is no equivalent requirement in the UK Conclusions Paper.

Comments made in preliminary discussions with stakeholders

287. Participants generally agreed that Hong Kong should follow US stock exchange requirements with regard to the fair market value of De-SPAC Targets.

Proposals

288. We propose that a De-SPAC Target must have a fair market value of at least 80% of funds raised by the SPAC from its initial offering (prior to any redemptions) to help ensure that De-SPAC Targets are businesses with sufficient substance to justify a listing.

289. We also seek respondents' feedback on whether the Exchange should impose a requirement that the SPAC use a certain proportion of the net funds it raises (i.e. funds raised from its initial offering plus PIPE investments, less redemptions) as consideration for a De-SPAC Transaction. There may be a concern that, if a Successor Company is able to retain all such funds, this may result in a substantial portion of its assets consisting wholly or substantially of cash following the transaction, rendering it a "cash company" unsuitable for listing.[188]

290. However, we understand that it is market practice for the consideration for a De-SPAC Transaction to be settled mostly through payment in shares and for the cash raised by a SPAC to be used by the Successor Company for its future development. Consequently, imposing such a requirement may put a Successor Company at a disadvantage vis-à-vis companies listing via a traditional IPO. We are also not aware of an overseas jurisdiction that imposes such a requirement.

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)? Please give reasons for your views.
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

[186] NYSE Listed Company Manual Section 102.06); NYSE American Company Guide Section 119(b); and NASDAQ IM-5101-2.

[187] SGX Response Paper, paragraph 2.118 on page 30.

[188] See Rule 8.05C(1).

	PIPE investments, less redemptions) that the SPAC must use for the purposes of a De-SPAC Transaction? Please give reasons for your views.
Question 34	If your answer to Question 33 is "Yes", 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.

IV. Independent Third Party Investment

Jurisdictional comparison

291. The US and the UK do not require that a SPAC obtain independent third party investment to complete a De-SPAC Transaction or specify any requirements for the size of that investment.

292. Although the SGX does not mandate a PIPE investment to complete a De-SPAC Transaction, it agrees that PIPE investments will provide a form of a validation to investors on the valuation of a De-SPAC Transaction and act as an additional check and balance. As such, SGX dispensed with its initial proposal to require the appointment of an independent valuer if a PIPE investment is conducted. Instead, a SPAC should disclose in the shareholders' circular of a De-SPAC Transaction the reasons why the involvement of PIPE investors would address the independent valuation issue.[189] Where, among other matters[190], a PIPE investment is absent for a De-SPAC Transaction, an independent valuer is required to be appointed.[191]

Comments made in preliminary discussions with stakeholders

293. At our preliminary discussions held with stakeholders, the Exchange raised the risk that SPAC Promoters may deliberately over-value a De-SPAC Target so that the Successor Company that resulted from a De-SPAC Transaction met the minimum market capitalisation requirements for a new listing. The Exchange stated its belief that this risk was heightened because of the small number of persons involved in negotiating terms of a De-SPAC Transaction.

294. Some participants at these discussions believed that the risk of over valuation of the Successor Company would be mitigated by one or more of: (a) market reaction to the De-SPAC Transaction as reflected in a drop in the SPAC Share price following the announcement of the transaction; (b) the ability for SPAC shareholders to redeem their

[189] SGX Response Paper, paragraphs 2.123 and 2.125 on page 30 and 31.

[190] SGX also requires an independent valuer be appointed where mineral, oil and gas targets and property investment / development targets are acquired by / merged with the SPAC. This is consistent with Singapore's position for a traditional IPO.

[191] SGX Response Paper, paragraphs 2.124 on page 31.

shares if they considered the terms of the De-SPAC Transaction unattractive; and (c) validation by outside investment obtained by the SPAC to complete the De-SPAC Transaction.

Proposals

295. We agree with stakeholders who participated in our preliminary discussions that the risk of artificial valuations of De-SPAC Targets could be mitigated by the validation of independent third parties, such as outside PIPE investors. For this reason we propose to mandate that a SPAC obtain funds from outside independent PIPE investors for the purpose of completing a De-SPAC Transaction.

296. To provide sufficient comfort that the valuation negotiated between the SPAC Promoter and the owners of the De-SPAC Target is not artificial, we propose that outside independent PIPE investment constitute at least 25% of the expected market capitalisation of the Successor Company. We would be prepared to accept a lower percentage of between 15% and 25% in the case of Successor Companies with an expected market capitalisation, at the time of listing, of over HK$1.5 billion.

297. We also propose to require that at least one independent PIPE investor in a De-SPAC Transaction be an asset management firm with assets under management of at least HK$1 billion or a fund with a fund size of at least HK$1 billion. The investment made by this firm or fund 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.

298. We propose to apply the same criteria that we apply to an IFA to determine the independence of a PIPE investor in a De-SPAC Transaction.[192]

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? Please give reasons for your views.
Question 36	If your answer to Question 35 is "Yes", 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	If your answer to Question 35 is "Yes", 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

[192] See Rule 13.84.

	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	If your answer to Question 35 is "Yes", do you agree with the application of IFA requirements to determine the independence of outside PIPE investors? Please give reasons for your views.

V. Dilution Cap

Jurisdictional comparison

299. US practice and requirements do not place a cap on the dilution to the value of a SPAC Investor's shareholdings resulting from the conversion of the Promoter Shares and the exercise of SPAC Warrants and Promoter Warrants. Promoter Shares would normally represent approximately 20% of the SPAC's outstanding shares at the closing of its IPO.

300. In the US, Promoter Warrants are issued to SPAC Promoters in a private placement in conjunction with an IPO either on a standalone basis or as part of a stapled unit (which consists of SPAC Shares and Promoter Warrants stapled together in a particular share to warrant ratio). [193] As no new SPAC Shares are issued if Promoter Warrants are issued on a standalone basis, the dilution effect is greater where this is the case.

301. The UK Conclusions Paper states that a SPAC must disclose the dilution effects on ordinary shareholders potentially arising from the De-SPAC Transaction (including from securities held by, or to be issued to, the SPAC Promoters and from the PIPE transaction) to allow a SPAC Investor to make a properly informed decision regarding a De-SPAC Transaction.[194]

302. To mitigate the risk of dilution, the SGX imposes a dilution cap of no more than 50% on the SPAC post-invitation issued share capital (including Promoter Shares) with respect to the conversion of warrants issued by the SPAC in connection with the SPAC IPO [195], while retaining the detachability of SPAC Warrants (see paragraph 163). It further requires that the limit, together with the dilutive effect to shareholders, be disclosed in the SPAC IPO prospectus and the circular for the De-SPAC Transaction.

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[193] Of the Sampled Greater China SPACs, seven issued Promoter Warrants as part of a stapled unit and three issued Promoter Warrants on a standalone basis. In these latter three cases, these standalone Promoter Warrants generally represented approximately 30% - 40% of the total number of warrants (SPAC Warrants plus Promoter Warrants) issued in the IPO.

[194] UK Conclusions Paper, paragraphs 2.44 and 2.5.

[195] SGX Response Paper, paragraph 3.32 on page 50.

303. Further, having considered that the Promoter Shares are incentives tied to the completion of a De-SPAC Transaction, rather than the long-term success of a Successor Company, and one of the key SPAC features that materially contributes to dilution, the SGX changed its position from that set out in the SGX Consultation Paper[196] and decided to impose a limit on Promoter Shares of up to 20% of the SPAC's total issued shares at its listing, as it believes this will reinforce the alignment of interests between SPAC Promoters and independent shareholders and mitigate the potential dilutive impact to non-redeeming shareholders. [197]

Comments made in preliminary discussions with stakeholders

304. Several participants to our preliminary discussions stated that matters such as the share to warrant ratio of a SPAC Unit and the size of the Promote should be a commercial decision left to SPAC Promoters. They thought that the market would dictate the level of dilution SPAC shareholders were willing to accept, based on the track record and reputation of a SPAC Promoter.

305. Some participants stated that an "earn-out" structure for the Promote (whereby all or part of the Promote is exercisable only if a Successor Company meets set performance targets) could result in a better alignment of interests between SPAC Promoters and SPAC Investors. However, it was also noted that an excessively high Promote could lead to substantial dilution. Stakeholders said that recent commonly seen earn-out structures often involve a "ratchet" arrangement whereby separate portions of the Promote (above an initial percentage) are exercisable if increasingly high performance linked target thresholds are met up to a maximum of 30% of the SPAC's outstanding shares (as at the closing of its IPO).

306. Other participants thought that the Exchange should apply a requirement that was consistent with its existing anti-dilution measures.

Proposals

307. Promoter Shares, Promoter Warrants and SPAC Warrants, when converted / exercised, may result in dilution to the SPAC Shares held by investors who choose not to redeem those shares prior to the completion of a De-SPAC Transaction (see paragraphs 138 to 139).

308. The Listing Rules currently cap the maximum dilution to the number of shares in issue that can occur from the exercise of warrants by stating that securities to be issued on their exercise must not exceed 20% of the number of the issuer's shares in issue.[198]

309. The Listing Rules also cap the maximum dilution to the value of shareholdings following a rights issue, open offer or specific mandate placing. A listed issuer may not undertake a corporate action of these kinds if it would result in a theoretical dilution effect of 25%

[196] SGX Consultation Paper Question 14.

[197] SGX Response Paper, paragraphs 4.16 and 4.17 on pages 54 and 55.

[198] Rule 15.02(1).

or more.[199] The Exchange has previously stated that it regards a value dilution of 25% or more to be oppressive to shareholders.[200]

Disclosure requirement

310. We propose to require a SPAC to fully disclose (in the circular to shareholders to obtain approval for the De-SPAC Transaction) the dilution in number and value to non-redeeming SPAC shareholders that may occur if the transaction is approved and completed.

Possible dilution cap

311. We seek feedback on whether, in addition to the disclosure requirement above, imposing a cap on the maximum dilution possible from the conversion of Promoter Shares and the exercise of warrants issued by a SPAC is also appropriate. If this option is preferred, we propose to prohibit a SPAC from issuing:

(a) Promoter Shares to SPAC Promoters that represent more than 20% of the total number of shares the SPAC has in issue as at the date of its listing, and if the Promoter Shares are convertible into SPAC Shares, such conversion shall be on a one-for-one basis only;

(b) SPAC Warrants or Promoter Warrants that entitle the holder to more than a third of a share upon their exercise; [201]

(c) warrants, in aggregate (i.e. SPAC Warrants plus Promoter Warrants) that, if immediately exercised (whether or not such exercise is permissible), result in the issue of shares of a number that is greater than 30% of the number of shares in issue at the time such warrants are issued; and

(d) Promoter Warrants that, if immediately exercised (whether or not such exercise is permissible), result in the issue of shares of a number that is greater than 10% of the number of shares in issue at the time such warrants are issued.

312. We would be willing to accept requests from a SPAC to issue additional Promoter Shares to SPAC Promoters after completion of the De-SPAC Transaction ("**earn out portion**") on the following conditions:

(a) the total number of Promoter Shares (including the earn-out portion) should represent an amount not more than 30% of the total number of shares in issue at the time of the SPAC listing;

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[199] Rule 7.27B. This dilution in value is calculated by comparing a "benchmarked price" to a "theoretical diluted price".

[200] Consultation Paper on Capital Raisings by Listed Issuers published on the HKEX website by the Exchange on 22 September 2017, paragraphs 21 to 28.

[201] This would mean that an investor must hold at least three SPAC Warrants or at least three Promoter Warrants to be able to convert them into one share.

(b) the earn-out portion is linked to objective performance targets (such as a targeted level of revenue or profits, as reported in the Successor Company's audited financial statements for a designated financial period). To mitigate the risk of manipulation, these performance targets should not be determined by changes in the price or trading volume of the Successor Company's shares;

(c) SPAC shareholders having granted approval, at the general meeting called to approve the De-SPAC Transaction, of the earn-out portion; and

(d) such earn-out portion shall be included in the resolution approving the De-SPAC Transaction.

313. We also propose that a SPAC must not grant any anti-dilution rights to a SPAC Promoter that would result in the SPAC Promoter holding more than the number of Promoter Shares that they held at the time of the SPAC's initial offering.

314. If the SPAC conducts any sub-division or consolidation of shares, and as a result of which the number of Promoter Shares and SPAC Shares to which they are convertible into are required to be adjusted, the Exchange will accept a change in number of Promoter Shares if it is satisfied that any such adjustment is on a fair and reasonable basis, and will not result in the SPAC Promoter being entitled to a higher proportion of Promoter Shares or SPAC Shares than it was originally entitled to as at the date of the listing of the SPAC.

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? Please give reasons for your views.
Question 40	If your answer to Question 39 is "Yes", do you agree with the anti-dilution mechanisms proposed in paragraph 311 of the Consultation Paper? Please give reasons for your views and provide any suggestions for alternative dilution cap mechanisms that could be considered.
Question 41	If your answer to Question 39 is "Yes", 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 are met? Please give reasons for your views.
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? Please give reasons for your views.

VI. Shareholder Vote on De-SPAC Transactions

Jurisdictional comparison

315. US stock exchanges do not mandate shareholders' approval for a De-SPAC Transaction, unless the transaction involves share issuances requiring such approval.[202] However, it is common practice for shareholder approval to be obtained.

316. The UK Conclusions Paper states that a De-SPAC Transaction must be approved by a majority of SPAC's public shareholders (excluding SPAC Promoters and SPAC directors) as a condition for relaxing its current stance on the suspension of trading prior to the completion of a De-SPAC Transaction (see paragraph 245).[203]

317. The SGX originally proposed a simple majority of a SPAC's independent shareholders (excluding the SPAC's founding shareholders, its management team and their respective associates) in approving a De-SPAC Transaction at a general meeting.[204] However, the SGX Response Paper states that SGX allows all SPAC shareholders to vote on a De-SPAC Transaction in respect of their respective holdings of SPAC Shares (but not Promoter Shares) to provide sufficient deal certainty.[205]

Comments made in preliminary discussions with stakeholders

318. Participants at our preliminary discussions agreed with requiring a shareholder vote on De-SPAC Transactions and placing restrictions on voting by shareholders with a material interest in the transaction.

Proposals

319. Requiring a shareholder vote for a De-SPAC Transaction and placing restrictions on voting by shareholders with a material interest in the transaction is consistent with our requirements for large notifiable transactions generally.

320. We propose that a De-SPAC Transaction must be made conditional on approval by the SPAC's shareholders at a general meeting. Written shareholders' approval will not be accepted in lieu of holding a general meeting. [206]

321. We propose to require that a shareholder and its close associates abstain from voting

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[202] The following share issuances require shareholder approval: (i) issuance of more than 20% of issued share capital (NASDAQ Rule 5635(a)(1); NYSE Listed Company Manual Section 312.03(c) and NYSE American Company Guide Section 712(b)); (ii) if any director, officer or substantial shareholder has individually 5%, or collectively, 10% interest or more in the target; and issuance of shares could result in an increase in outstanding common shares or voting power of 5% or more (NASDAQ Rule 5635(a)(2); NYSE Listed Company Manual Section 312.03(b); and NYSE American Company Guide Section 712(a)); and (iii) the share issuance would result in change of control of the issuer (NASDAQ Rule 5635(b); NYSE Listed Company Manual Section 312.03(d); and NYSE American Company Guide Section 713(b)).

[203] UK Conclusions Paper, paragraph 2.28.

[204] SGX Consultation Paper, paragraph 9.1 on page 17.

[205] SGX Response Paper, paragraph 2.168 on page 42.

[206] In line with Rule 14.55.

at the relevant general meeting on the relevant resolution(s) if such a shareholder has a material interest in the transaction. This would mean that:

(a) the SPAC Promoter(s) and their close associates must abstain from voting; and

(b) any outgoing controlling shareholder(s) of the SPAC and their close associates, if the De-SPAC Transaction results in a change of control, must not vote in favour of the relevant resolution(s).[207]

322. The terms of any outside investment (including the PIPE 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.

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? Please give reasons for your views.
Question 44	If your answer to Question 43 is "Yes", 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? Please give reasons for your views.
Question 45	If your answer to Question 43 is "Yes", 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? Please give reasons for your views.

VII. De-SPAC Transactions Involving Connected De-SPAC Targets

Jurisdictional comparison

323. In the US, SPACs are required, under SEC guidance, to consider disclosing in their prospectus and Proxy Statements De-SPAC Targets in which the SPAC Promoter's directors, officers or their affiliates have an interest[208]. Also, the related party transaction rules of US exchanges require the SPAC's audit committee or independent directors to conduct a review and oversight of these transactions.[209]

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[207] In line with Rule 14.55.

[208] Division of Corporate Finance, SEC, CF Disclosure Guidance: Topic No. 11 "Special Purpose Acuiqistion Companies", 22 December 2020.

[209] NASDAQ Rule 5630, NYSE Listed Company Manual Section 314; and NYSE American Company Guide Section 120.

324. The UK Conclusions Paper states that, where any of a SPAC's directors have a conflict of interest in relation to a De-SPAC Target (or a subsidiary of that target), the board of the SPAC must publish a statement that the proposed transaction is "fair and reasonable" as far as the SPAC's public shareholders are concerned. This statement must reflect the advice of an appropriately qualified and independent adviser. The Board statement must be published to shareholders of the SPAC in sufficient time ahead of the shareholder vote on the De-SPAC Transaction.[210]

325. The SGX Response Paper states that where a De-SPAC Transaction is considered an "interested person transaction", existing requirements in relation to such transaction[211] (including the requirement to appoint an independent financial adviser) shall apply.[212] Also, potential conflict of interests of SPAC Promoters, SPAC directors, and their respective associates, as well as the measures to mitigate such conflicts should be disclosed in the listing document and circular issued to shareholders by SPACs.[213]

Comments made in preliminary discussions with stakeholders

326. Participants at our preliminary discussions believed that the Exchange should apply its existing requirements to De-SPAC Transactions involving connected targets.

Proposals

327. We set out above the risk that the valuation of a De-SPAC Target and Successor Company is not genuine (see paragraphs 134 to 135) and may be manufactured to meet our new listing requirements. This risk is higher for De-SPAC Transactions involving connected targets. Such over-valuation may also be used to shift value to the controlling shareholders of De-SPAC Targets at the expense of SPAC shareholders.

328. However, we acknowledge that there may be circumstances where a complete prohibition on connected transactions is unnecessarily restrictive and so we would be prepared to allow De-SPAC Transactions that were connected transactions providing the following conditions are met.

Definition of a "connected person"

329. Our connected transaction Rules would apply to De-SPAC Transactions and, for this purpose, a SPAC Promoter; the SPAC's trustee/custodian; the SPAC directors and an associate of any of these parties would be defined as a "connected person"[214].

330. A De-SPAC Transaction would be considered a "connected transaction" if it may confer benefits on any of the parties set out above through their interests in the entities

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[210] UK Conclusions Paper, paragraphs 2.33 and 2.38.

[211] SGX Mainboard Rules, Chapter 9.

[212] SGX Response Paper, paragraph 2.124 on page 31.

[213] SGX Mainboard Rule 625(13); and SGX Response Paper, Practice Note 6.4 "Requirements for Special Purpose Acquisition Companies", paragraph 7.1(n) on page 83.

[214] So expanding the definition of a "connected person" of Rule 14A.07.

involved in the transaction.[215]

Existing connected transaction requirements

331. If a De-SPAC Transaction is considered a connected transaction, in addition to the requirement to obtain the approval of independent SPAC shareholders set out above (see paragraphs 319 to 322), the SPAC would be also required to comply with the following and the other provisions applicable to connected transactions[216]:

(a) set up an independent board committee to advise the SPAC's shareholders:

(i) whether the terms of the connected transaction are fair and reasonable;

(ii) whether the connected transaction is on normal commercial terms or better;

(iii) whether the connected transaction is in the interests of the SPAC and its shareholders as a whole; and

(iv) how to vote on the connected transaction.

The independent board committee must consist only of independent non-executive directors who do not have a material interest in the transaction.

(b) appoint an IFA, acceptable to the Exchange, to make recommendations to the independent board committee and shareholders on the matters set out in (a) above.

332. The circular to shareholders regarding the De-SPAC Transaction must include:

(a) a letter from the independent board committee containing its opinion on the matters set out in paragraph 331(a) above and conforming with relevant Listing Rule requirements; and

(b) a letter from the IFA containing its opinion and recommendation.

333. The IFA must meet all relevant requirements of the Listing Rules.

Additional requirements

334. In addition, a SPAC must comply with the applicable connected transaction requirements of the Listing Rules and:

(a) demonstrate that minimal conflicts of interest exist in relation to the proposed acquisition; and

(b) support, with adequate reasons, its claim that the transaction would be on an arm's length basis. These may be evidenced, for example, by:

(i) demonstrating that the SPAC and its connected persons are not controlling shareholders of the De-SPAC Target (i.e. they exercise, or control the exercise of, less than 30% of its voting rights or they do not have "board control"); and

[215] In line with Rule 14A.23.

[216] See Rules 14A.32 to 14A.48.

(ii) no cash consideration being paid to connected persons, and any consideration shares issued to the connected persons being subject to a lock-up period of 12 months.

(c) in all cases, include an independent valuation in the circular to shareholders for their approval of the De-SPAC Transaction.

335. The current exceptions and exemptions of the connected transaction requirements of the Listing Rules would also apply to De-SPAC Transactions.

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?

Please give reasons for your views.

VIII. Alignment of Voting with Redemption

Jurisdictional comparison

336. US exchange rules stipulate that, if a general meeting is held to obtain shareholder approval for a De-SPAC Transaction, public shareholders[217] voting against the De-SPAC Transaction must be entitled to a right to redeem their SPAC Shares.[218] These rules do not, however, prohibit a SPAC from also providing this redemption right to public shareholders that vote for the De-SPAC Transaction. If such a general meeting is not held, all shareholders must be entitled to a redemption right.[219] In practice, SPAC Promoters are contractually refrained from exercising their redemption rights (whether in respect of Promoter Shares or SPAC Shares).

337. The UK Conclusions Paper does not provide any prohibition on providing a redemption right to a SPAC shareholder that votes for a De-SPAC Transaction.

338. In the SGX Response Paper, SGX altered its initial position of linking shareholders' redemption right to their voting decisions on a De-SPAC Transaction.[220] Instead, consistent with the US practice, it allows all independent shareholders to have a redemption option regardless of their voting decisions, as it stated that it recognises

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[217] Public shareholders exclude SPACs' officers and directors, SPAC sponsors, founding shareholders, and their respective family members and affiliates, or the beneficial holder of more than 10% of the total outstanding shares.

[218] NASDAQ IM-5101-2(d); NYSE Listed Company Manual Section 102.06(b); and NYSE American Company Guide Section 119(d).

[219] NASDAQ IM-5101-2(e); NYSE Listed Company Manual Section 102.06(c); and NYSE American Company Guide Section 119(e).

[220] SGX Consultation Paper, paragraph 1.1 on page 17.

that a high redemption rate is not a key source of dilution.[221]

Comments made in preliminary discussions with stakeholders

339. Several participants at our preliminary discussions were not supportive of withholding a redemption right from SPAC shareholders who vote for a De-SPAC Transaction. They believed that allowing a SPAC shareholder to do so increased the likelihood that a majority of shareholders would vote in favour of the De-SPAC Transaction and therefore increased the certainty that the De-SPAC Transaction would successfully complete.

Proposals

340. Although this was not the position of many participants at our preliminary discussions with stakeholders, we believe that SPAC shareholders should only be able to redeem SPAC Shares if they vote against one of the matters set out in paragraph 352. Implementing this prohibition should help ensure that the shareholder vote on the transaction functions as a meaningful check on the reasonableness of its terms of and would help curb abusive practices (such as over-valuation).

341. Although this may result in a reduction in the certainty of approval, we believe, for genuine transactions, this is likely to be compensated for by a reduction in the rate at which SPAC Investors choose to redeem their SPAC Shares. It should also help ensure that the interests of non-redeeming shareholders are not prejudiced by votes cast by persons whose interests are not aligned with their own.

342. For the avoidance of doubt, SPAC shareholders will be entitled to keep any SPAC Warrants they hold if they elect to redeem all or part of their shareholding. This ensures that these shareholders are compensated for the lack of return on their investment held in trust prior to the completion of a De-SPAC Transaction (see paragraph 22).

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? Please give reasons for your views.

IX. Share Redemptions

Jurisdictional comparison

343. US stock exchange rules require SPACs to provide shareholders with the option of redeeming their shares and receiving a pro rata share of the aggregate amount then in the trust account (net of taxes payable and amounts distributed to management for working capital purposes).[222]

344. To discourage the accumulation of large blocks of shares and attempts by the acquirer

[221] SGX Response Paper, paragraphs 3.16 and 3.17 on page 46.

[222] NASDAQ IM-5101-2(d)&(e); NYSE Listed Company Manual Section 102.06(b)&(c); and NYSE American Company Guide Section 119(d)&(e).

to use the threat of redemption to force a SPAC to purchase those shares at a significant premium to the market price (or on other undesirable terms), some US listed SPACs place restrictions on redemptions. These restrictions are commonly referred to as "bulldog provisions" and place a limit on the percentage of publicly held shares that SPAC shareholders (together with parties they are acting in concert with) can redeem (generally 10% to 20%).[223] US stock exchange rules allow SPACs to implement a redemption limit of no lower than 10% of the SPAC Shares sold in a SPAC IPO.[224]

345. The UK Conclusions Paper states that shareholders should be provided with a redemption option, exercisable prior to the completion of the De-SPAC Transaction, which specifies a fixed amount or fixed pro rata share of the ring-fenced cash proceeds, less the SPAC's pre-agreed running costs.[225]

346. The SGX Response Paper requires that:

(a) independent shareholders[226] be afforded the right to elect to redeem their shares and be entitled to a pro rata portion of the amount held in trust at the time of the De-SPAC Transaction, provided that the De-SPAC Transaction is approved and completed within the permitted time frame;[227]

(b) interest and income earned on the amount held in trust may be applied as payment for the administrative expenses in connection with the SPAC IPO, general working capital expenses and related expenses for the purposes of identifying and completing a De-SPAC Transaction, but not required to be ring-fenced for investors' full redemption of their initial investment[228]; and

(c) the drawdown of escrowed funds in exceptional circumstances be subject to the respective approvals by a special resolution of all SPAC shareholders (in respect of their holdings of SPAC Shares) and SGX.[229]

347. Consistent with the practice in the US, the SGX allows a SPAC to impose a redemption limit of no lower than 10% of all issued shares at listing. Such limit must be disclosed in the SPAC IPO prospectus and the circular where the shareholder approval of a De-SPAC Transaction is sought.[230]

Comments made in preliminary discussions with stakeholders

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[223] Of the Sampled Greater China SPACs, four had such a "bulldog provision".

[224] NYSE Listed Company Manual Section 102.06(b); and NYSE American Company Guide Section 119(d).

[225] UK Conclusions Paper, paragraphs 2.39, 2.40 and 2.43.

[226] Other than a SPAC's founding shareholders, its management team and their respective associates.

[227] SGX Mainboard Rule 210(110)(m)(x).

[228] SGX Response Paper, paragraph 2.104, page 26.

[229] SGX Response Paper, paragraph 2.102, page 26.

[230] SGX Response Paper, paragraph 3.18, page 46.

348. Participants at our preliminary discussion agreed that SPAC shareholders should be provided with the option to elect to redeem their shares at the IPO price and commented that this was in line with US practice.

Proposals

349. We propose that it should be mandatory for SPACs to provide a redemption option. We also propose that shareholders who elect to redeem should receive a pro rata amount of 100% of the funds raised by the SPAC at its initial offering, at the price at which such shares were issued, plus accrued interest.

350. This would ensure that a SPAC Promoter incurs all of the expenses to establish and maintain the SPAC, which should not be recoverable if a De-SPAC Transaction is not completed. As SPAC Promoters would regard this as their "capital at risk", it should help ensure that the interests of SPAC Promoters are better aligned with SPAC shareholders who do not wish to redeem their shares.

351. It should be noted that SPAC shareholders who purchased SPAC Shares in the secondary market at a price higher than the price at the time of the SPAC's initial offering would not be able to recover their investment in full in the event of redemption.

Election of Redemption

352. We propose to require SPACs to provide shareholders with the opportunity to elect to redeem all or part of their shareholdings (at the price at which they were issued in the SPAC's initial offering, plus accrued interest) in the circumstances of a shareholder vote on:

(a) a material change in the SPAC Promoter managing a SPAC or the eligibility and/or suitability of a SPAC Promoter (see paragraphs 218 to 220);

(b) a De-SPAC Transaction; and

(c) a proposal to extend the De-SPAC Announcement Deadline or the De-SPAC Transaction Deadline (see paragraphs 426 to 429).

Prohibition on redemption limits

353. We also propose to prohibit a SPAC from placing a limit on the amount of shares a SPAC shareholder (alone or together with their associates) may redeem. This is to ensure SPAC shareholders can recover their investment (at the price SPAC Shares were issued at the SPAC's initial offering) if they elect to vote against the resolutions described above and to ensure that their voting on such matters is not influenced by any redemption limitations.

354. As the Takeovers Code will apply (see paragraphs 395 to 416), in general, a SPAC would not be able to pay a premium to some, but not all, of its shareholders if a general offer obligation is triggered by the SPAC purchasing a large block of shares. This should reduce the need for an Exchange listed SPAC to implement a "bulldog provision" (see paragraph 344) to deter the accumulation of large blocks of its shares.

Redemption Procedure

355. A SPAC would be required to provide a period for such elections starting on the date

of the notice of the shareholder meeting to approve the relevant matter referred to in paragraph 352 and ending on the date of the relevant general meeting.

356. The notice of the shareholder meeting must be issued in conformity with SPAC's constitutional documents and the Listing Rules.[231] The notice should also inform shareholders that only shares voted against the relevant matter that is subject to the vote (i.e. one of the matters set out in paragraph 352) can be redeemed (see section VIII "Alignment of Voting with Redemption" above).

357. Requiring the period for the election of redemption to be run simultaneously with the notice for the period for the general meeting is in line with US practice and:

(a) ensures shareholders are given sufficient notice, prior to the relevant general meeting, that abstaining or voting in favour of the matter subject to the vote will invalidate an election to redeem their shares; and

(b) minimises the time needed to complete a De-SPAC Transaction, which stakeholders stated was one of the main benefits of such transactions, compared to a traditional IPO.

358. We propose that a SPAC shareholder be able to redeem part or all of the SPAC Shares that they voted against a relevant matter (see paragraph 352). However, any shares voted in favour, abstaining or failing to vote on a relevant matter could not be redeemed.

359. SPACs must not accept elections to redeem unless those elections are accompanied by delivery of the relevant number of shares.

360. In the case of a shareholder vote on a De-SPAC Transaction (see paragraph 352(b)), redemptions would be subject to completion of the De-SPAC Transaction. A SPAC's funds would remain held in trust if the De-SPAC Transaction does not successfully complete so that the SPAC can use them for the purpose of listing an alternative De-SPAC Target at a later date.

361. We propose that the redemption and the return of funds to redeeming SPAC shareholders must be completed within five business days of the completion of the De-SPAC Transaction.

362. In the case of a shareholder vote on a material change in the SPAC Promoter or a proposal to extend a De-SPAC Announcement Deadline or a De-SPAC Transaction Deadline (see paragraph 352(a) and (c)), we propose redemptions must be completed within one month of the date of the relevant general meeting.

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?

[231] See Appendix 3, paragraph 7(2); Appendix 13a, paragraph 3; Appendix 13b, paragraph 3(1); and Appendix 14 Code Provision E.1.3 of the Listing Rules.

	Please give reasons for your views.
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? Please give reasons for your views.
Question 50	Do you agree with the proposed redemption procedure described in paragraphs 355 to 362 of the Consultation Paper? Please give reasons for your views.

X. Forward Looking Information

Jurisdictional comparison

363. Commentators state that one advantage of SPACs over traditional IPOs, in the US, is that SPACs can use a "safe harbour" provided by the Private Securities Litigation Reform Act to protect them from subsequent private litigation liability if they include forward looking statements in their SEC filings for a De-SPAC Transaction. If such statements turn out to be false, it is claimed that the issuer is not subject to liability for making a misstatement unless it knew the statements were false when making them. However, on 8 April 2021, the Acting Director of the SEC's Division of Corporation Finance made a public statement disputing this claim (see paragraph 59).

364. In the UK, profit forecasts included in a circular for a De-SPAC Transaction must meet existing requirements, including the requirement that they are accompanied by a statement confirming that the forecast has been properly compiled on the basis of assumptions stated and that the basis of accounting is consistent with the accounting policies of the listed issuer.[232]

365. The SGX Response Paper states that profit forecasts and/or projections must fully comply with statutory obligations and existing listing rule requirements.[233] These require, among other things, that the circular containing the forecast in respect of a De-SPAC Transaction include:

(a) a report from a financial adviser confirming that it is satisfied that the forecast has been stated after due and careful enquiry;

(b) details of the principal assumptions (including commercial assumptions) upon which the forecast is based; and

(c) confirmation from the Successor Company's auditors that they have reviewed

[232] UK Listing Rule 13.5.32R(2).

[233] Paragraphs 13 to 17 of Part 6 of the Fifth Schedule of the Securities and Futures (Offers of Investments) (Securities and Securities-based Derivatives Contracts) Regulations 2018; and SGX Mainboard Rule 1012 and Rule 1013.

the bases and assumptions, accounting policies and calculations for the forecast.[234]

Comments made in preliminary discussions with stakeholders

366. At our preliminary discussions, participants mentioned that De-SPAC Targets are often at an early stage of their development with a financial track record that is not reflective of their growth potential. Therefore profit forecasts are necessary to indicate their future prospects.

367. Some stakeholders also mentioned the perceived advantage of SPACs, over IPOs, regarding the provision of forward looking information (see paragraph 363). It was also stated that SPACs would be unlikely to include a profit forecast in a circular to shareholders if they are required to be signed-off by IPO Sponsors and reporting accountants.

368. However, other participants believed that existing safeguards should be applied. It was also suggested that it should be possible for forward-looking statements to be included without requiring sign-offs from an IPO Sponsor and a reporting accountant if the length of the forward projections were tied to lock-ups of the shares of SPAC Promoters in the Successor Company.

Proposals

369. As previously stated in this section, SPACs are cash companies that carry the risk that they will be used as a means to circumvent new listing track record requirements for the purpose of listing sub-standard businesses and/or assets (see paragraphs 133). There is also a risk that a De-SPAC Target may be deliberately over-valued to meet the minimum market capitalisation requirements for a new listing (see paragraph 134 and 135). One way in which this could be attempted would be through the inclusion of overly optimistic forward looking statements in the Listing Document for a De-SPAC Transaction.

370. We therefore do not see a valid case for lowering our requirements on forward looking statements for SPACs and continue to believe they should be formulated on a reasonable basis and verified by independent persons to the same standard as that required for an IPO.

371. So, we propose that a Listing Document produced for the purpose of a De-SPAC Transaction (see paragraph 275 to 277) must not refer (in general or particular) to future profits or contain dividend forecasts based on an assumed future level of profits unless such references are supported by a formal profit forecast.[235]

372. If a forward-looking statement is included in a Listing Document for a De-SPAC Transaction, we propose that these must conform to existing new listing requirements

[234] SGX Response Paper, paragraph 4.40, page 61.

[235] In line with Rule 11.16.

and so must:

(a) be clear, unambiguous and presented in an explicit manner and the principal assumptions, including commercial assumptions, upon which they are based must be stated;

(b) be prepared on a basis that is consistent with the accounting policies normally adopted by the issuer and reviewed and reported on by the reporting accountants and such report must be set out[236];

(c) include a report from the IPO Sponsor appointed for the purpose of the transaction that they have satisfied themselves that the forecast has been made by the directors after due and careful enquiry and such report must be set out[237];

(d) cover a period which is coterminous with the issuer's financial year end[238]; and

(e) provide the assumptions upon which the profit forecast is based.[239]

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? Please give reasons for your view.

XI. Open Market in Successor Company's Shares

Jurisdictional comparison

373. Under the US regime, UK regime and Singapore regime, Successor Companies will inherit the shareholder base of a SPAC that has not been subject to the restrictions of marketing to and trading by Professional Investors only. Consequently, these regimes impose their usual shareholder distribution requirements.

374. In US, the share distribution of the Successor Company must meet the stock exchange's initial listing criteria, which means at least 1 million or 1.1 million publicly-held shares with a minimum of 300 or 400 round lot holders.[240]

375. In UK, new listing requirements apply to a Successor Company, which include a requirement for the company to have a 25% public float, but do not include a minimum

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[236] Rule 11.17.

[237] Rule 11.17.

[238] Rule 11.18.

[239] Rule 11.19.

[240] For NYSE and NASDAQ Global Market, at least 1.1 million publicly-held shares and 400 round lot holders (NYSE Listed Company Manual Section 802.01 and Section 102.01A; NASDAQ IM-5101-2(d); and NASDAQ Rule 5405(a)(2)and(3)). For NYSE American, at least 1 million publicly-held shares and 400 public shareholders (NYSE American Company Guide Section 119(f) and Section 102). For NASDAQ Capital Market, at least 1 million publicly-held shares and 300 round lot holders (NASDAQ Rule 5505(a)(2)and(3)).

shareholder distribution requirement.[241]

376. The SGX Response Paper states that a Successor Company is required to fulfil existing SGX listing rule requirement for shareholding spread and distribution at listing[242], which stipulates a public float between 12% and 25% (depending on the Successor Company's market capitalisation) with a minimum of 500 shareholders.

Proposals

377. Since a Successor Company will have to meet new listing requirements that are no different from those met by an issuer listed through a traditional IPO, we do not consider it necessary to restrict the trading of a Successor Company's securities to Professional Investors.[243] However, as public investors will be able to trade the shares of a Successor Company (in which there may be significant public interest) there is a risk of volatility in its share price immediately upon its listing.

378. As we state above (see paragraph 178), the Listing Rules currently require an issuer to have at least 300 shareholders at the time of its listing.[244] This Rule is designed to establish a broad base of shareholders that will help ensure subsequent liquidity in newly listed securities. The requirement is well-established as the minimum number that is considered necessary to ensure an open market.

379. Due to our proposal that SPACs be restricted to Professional Investors, they are likely to have a much smaller shareholder base than 300 shareholders at the time they conduct a De-SPAC Transaction even though this base will increase due to our proposal that a SPAC must secure PIPE investment to complete the De-SPAC Transaction (see paragraphs 295 to 297).

380. We propose, therefore, that although a Successor Company must ensure an adequate spread of holders of its shares, this could be at least 100 shareholders rather than the minimum 300 shareholder requirement normally required.

381. Our proposed requirement that a SPAC must raise at least HK$1 billion in funds at its initial offering (see paragraph 196) and attract PIPE investment of up to 25% of a Successor Company's market capitalisation (see paragraph 296), should help ensure that Successor Companies are relatively large issuers whose size should mitigate the risk of substantial volatility in the trading of their shares upon listing.

Existing open market requirements apply

382. To further mitigate the risks of price volatility and liquidity associated with a smaller shareholder base, we propose that the following current requirements should apply:

(a) at least 25% of the total number of the issued shares of a Successor Company

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[241] UK Listing Rules 6.14 or 14.2.2(3).

[242] SGX Mainboard Rule 210(1)(a).

[243] Accordingly, the restricted marketing and trading requirements set out above for SPACs (see paragraphs 150 to 159) would not apply to a Successor Company.

[244] Rule 8.08(2).

must at all times be held by the public.[245]

(b) not more than 50% of the securities of a Successor Company in public hands can be beneficially owned by the three largest public shareholders, as at the date of the Successor Company's listing.[246]

383. We do not propose to require a Successor Company to make a public offer of its shares as part of a De-SPAC Transaction. As we state above (see paragraphs 98 to 102) one of the benefits of a SPAC is that it provides an alternative to listing via a traditional IPO by allowing a valuation to be negotiated between a relatively small group of parties. This benefit would be compromised if a public offer was required.

384. We seek respondents' views on whether the above proposals (set out in paragraphs 380 and 382) would provide sufficient liquidity to ensure an open market in the securities of a Successor Company to offset the risk of volatility in the trading of the shares of a Successor Company immediately upon its listing. We also seek respondents' views on whether there are any other measures that the Exchange should put in place to help ensure that an open market occurs.

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? Please give reasons for your views.
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? Please give reasons for your views.
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? Please give reasons for your views.

[245] As set out in Rule 8.08(1), including the discretion of the Exchange to accept a lower percentage of between 15% and 25% for issuers with an expected market capitalisation at the time of listing of over HK$10 billion.

[246] In line with Rule 8.08(3).

XII. Lock-up Periods

Jurisdictional comparison

385. US stock exchanges do not stipulate a lock-up period in their rules for SPACs. Typically, SPACs listed in US voluntarily impose a lock-up period on securities held by SPAC Promoters and the controlling shareholder of a Successor Company of 12 months upon completion of the De-SPAC Transaction.

386. The UK Conclusions Paper does not have any provisions regarding lock-up periods for a Successor Company.

387. The SGX Response Paper provides a moratorium requirement consistent with that currently required for a traditional IPO.[247] Depending on which quantitative criteria a Successor Company is able to meet [248], the founding shareholders and the management of the SPAC, the controlling shareholder of and the executive directors with an interest of 5% or more in the Successor Company, together with their respective affiliates, are subject to a lock-up period of at least six months and up to 12 months from the completion date of the De-SPAC Transaction.[249]

Comments made in preliminary discussions with stakeholders

388. Participants at our preliminary discussions with stakeholders generally agreed that SPAC Promoters should be subject to restrictions on their disposals of their Promoter Shares and Promoter Warrants after a De-SPAC Transaction. Participants commented that this was common practice in the US. They also believed that the Exchange should impose restrictions on controlling shareholders that were consistent with those it currently imposed following a new listing.

Proposals

389. The intention of a lock-up period is to help validate the disclosure that is made in a Listing Document. This document gives potential investors a "snap shot" view of an issuer's current financial position and a general indication of the controlling shareholder's intentions for the issuer, normally for a period of at least 12 months. A lock-up helps ensure that those involved in the creation of the Listing Document vouch for this information by aligning their economic interests with those of other shareholders throughout the lock-up period.[250]

390. For a De-SPAC Transaction, the proposed lock-up periods should also help validate the information presented to investors in the Listing Document regarding the valuation

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[247] SGX Mainboard Rule 229.

[248] If a Successor Company satisfies the profitability test in SGX Mainboard Rule 210(2)(a) or (b), the lock-up period would be at least six months from the completion date of the De-SPAC Transaction. If a Successor Company satisfies the market capitalisation test in SGX Mainboard Rule 210(2)(c), Rule 210(8) or Rule 210(9), the lock-up period for the entire shareholdings would be at least six months, and at least 50% of the original shareholdings for the next six months, from the completion date of the De-SPAC Transaction.

[249] SGX Mainboard Rule 210(11)(h).

[250] HKEX-GL89-16, "Guidance on issues related to "controlling shareholder" and related Listing Rules implications", paragraph 5.2

of the De-SPAC Target and the Successor Company. They will help show that both the SPAC Promoter and the controlling shareholder of the Successor Company negotiated the terms of the transaction between themselves in good faith and are committed to the validity of the terms of that transaction.

SPAC Promoter lock-up

391. We propose that SPAC Promoters be subject to a restriction on the disposal of their holdings in the Successor Company (including Promoter Shares and Promoter Warrants) after the completion of a De-SPAC Transaction.

392. We propose to prohibit SPAC Promoters from disposing of these holdings in the period ending 12 months from the date on the completion of the De-SPAC Transaction, and require that the terms of Promoter Warrants state that the Promoter Warrants are not exercisable during this period.

Controlling shareholder lock-up

393. We propose that a controlling shareholder of a Successor Company should be subject to a restriction on the disposal of its shareholdings (and holdings of other securities, if applicable) in the Successor Company following its listing.

394. We propose that these restrictions follow the current requirements of the Listing Rules on the disposal of shares by controlling shareholders following a new listing.[251] This would mean that a controlling shareholder could not dispose of its holdings in the first six months of the Successor Company's listing and could not dispose of its holdings in the second six months following the listing if this would result in it ceasing to be a controlling shareholder.

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?

Please give reasons for your views.

Question 56 If your answer to Question 55 is "Yes", do you agree that:

(a) 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; and

(b) Promoter Warrants should not be exercisable during the period ending 12 months from the date of the completion of a De-SPAC Transaction?

Please give reasons for your views.

Question 57 Do you agree that the controlling shareholders of a Successor Company should be subject to a restriction on the disposal of their

[251] Rule 10.07.

	shareholdings in the Successor Company after the De-SPAC Transaction? Please give reasons for your views.
Question 58	If your answer to Question 57 is “Yes”, 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)? Please give reasons for your views.

(E) APPLICATION OF THE TAKEOVERS CODE

395. The Takeovers Code applies to takeovers, mergers and share buy-backs affecting public companies in Hong Kong, companies with a primary listing of their equity securities in Hong Kong and REITs with a primary listing of their units in Hong Kong, irrespective of its country of incorporation, location of management or place of business and assets. The primary purpose of the Takeovers Code is to afford fair treatment for shareholders of these companies (or unitholders of REITs) who are affected by such takeovers activities.

396. General Principle 2 of the Takeovers Code provides that:

"If control of a company changes or is acquired or is consolidated, a general offer to all other shareholders is normally required. Where an acquisition is contemplated as a result of which a person may incur such an obligation, he must, before making the acquisition, ensure that he can and will continue to be able to implement such an offer."

397. It is expected that all SPACs will be primary listed in Hong Kong. Therefore, prima facie, the Takeovers Code should apply to SPACs.

398. However, considering the unique features of the proposed SPAC regime in Hong Kong and balancing the need to safeguard shareholders' interests in the event of a change of control of such public company, the Exchange and the Takeovers Executive has consulted the Takeovers Panel on the circumstances and manner in which the Takeovers Code should apply to the SPAC listing regime proposed in this paper.

I. Prior to De-SPAC Transaction Completion

399. SPACs will be primary listed in Hong Kong and are unlikely to be subject to the laws and regulations of other jurisdictions except for those of their place of incorporation. On this basis, we propose that the Takeovers Code apply to SPACs prior to the completion of a De-SPAC Transaction. The application of the Takeovers Code will ensure that, during a change of control (as defined in the Takeovers Code) in this period, shareholders will be afforded the same treatment and provided with an exit.

400. The following are examples of possible unsatisfactory scenarios where shareholders would be deprived of the opportunity to exit, if the Takeovers Code were not to apply:

(a) a mandatory general offer would not be required if persons "acting in concert" acquire voting rights of 30% or more as the concept of "acting in concert" is absent under the Listing Rules; and

(b) as SPAC Promoters typically hold 20% of the shares of a SPAC at the initial offering and, under the proposals set out in this paper, will be required to abstain in the vote on a De-SPAC Transaction (see paragraph 321), a third party would have majority voting rights on a De-SPAC Transaction if it held 40% or more of the voting rights of the SPAC, thereby holding a veto right over the De-SPAC Transaction without triggering a mandatory offer obligation.

Arguments against the application of the Takeovers Code

401. It could be argued that attempts to obtain Code-control through the acquisition of voting rights are unlikely as they would not lead to a change in de facto control of a SPAC.

This is because the SPAC Promoter is likely to have control over the board of the SPAC prior to the completion of a De-SPAC Transaction, irrespective of the voting rights obtained by other shareholders. A person that obtains Code-control would, therefore, be unlikely to be able to dictate the structure of the De-SPAC Transaction or the identity of the De-SPAC Target. At most (as illustrated in paragraph 400(b) above) they would be able to exercise a veto right over any potential De-SPAC Transaction if they obtained 40% or more of the SPAC's voting rights.

402. While a person acquiring Code-control over a SPAC may face difficulties in wrestling de facto control away from SPAC Promoters, the Takeovers Executive is not convinced that this reasoning is sufficient to dis-apply the Takeovers Code prior to the completion of a De-SPAC Transaction. While de facto control can demonstrate ancillary matters such as intention to acquire control of a company, control is defined as holding 30% or more of the voting rights of a company under the Takeovers Code, irrespective of whether that holding gives de facto control.

Proposals

403. After consulting the Takeovers Panel, the Takeovers Executive proposes that the Takeovers Code should apply to a SPAC during the SPAC Period.

404. The key reasons underlying this proposal are:

(a) Even though the likelihood of offers being made prior to the completion of a De-SPAC Transaction may be low, the Takeovers Executive considers that a period of up to 36 months (the deadline for completing a De-SPAC Transaction) without the application of the Takeovers Code to be unsatisfactory. The Takeovers Executive is particularly concerned that opportunistic behaviour may occur if unregulated offers are permitted during this period that may result in orderly markets risks.

(b) As a company with a primary listing in Hong Kong, SPACs should be subject to the regulatory regime of the Takeovers Code and a broad brush waiver of the Takeovers Code in its entirety during the SPAC Period is not appropriate.

(c) While the redemption of shares by SPAC Investors under the proposals set out in this paper may fall under the definition of an "exempt share buy-back" under the Code on Share Buy-backs, the Code on Share Buy-backs will provide protection to the SPAC Investors if a SPAC wishes to conduct buy-back transactions outside the redemption regime

Question 59	Do you agree that the Takeovers Code should apply to a SPAC prior to the completion of a De-SPAC Transaction? Please give reasons for your views.

II. The De-SPAC Transaction

405. The Takeovers Executive has considered whether it is appropriate for the Takeovers Code to apply to a De-SPAC Transaction, the completion of which would result in the owner of the De-SPAC Target becoming the new controlling shareholder of the Successor Company. If the Takeovers Code were to apply in full, this would mean

such owner would be required to make a mandatory general offer under Rule 26.1 of the Takeovers Code, or alternatively to apply for a whitewash waiver under the Notes on Dispensations from Rule 26.

406. In a traditional public company, investors normally make their investment decisions based on the fundamentals of the business and the capability of existing management teams. A change of control may involve changes in business objectives and/or management directions. In this circumstance, the Takeovers Code plays an essential role in safeguarding shareholders' interests by providing a set of rules on how shareholders can exit the company in a fair manner in the event of a change of control.

407. However, unlike traditional public companies:

(a) SPAC Investors will all be Professional Investors under the proposals set out in this paper;

(b) SPAC Investors rely on the ability and experience of the SPAC Promoters to identify suitable De-SPAC Targets and the potential value and return that may result from a De-SPAC Transaction; and

(c) at the outset, SPAC Investors are investing in a vehicle that has the intention to acquire a De-SPAC Target with a high expectation that a change of control may take place upon the completion of a De-SPAC Transaction. Consideration shares are likely to be issued to the owner of the De-SPAC Target to ensure that such owner will continue to have significant influence over the Successor Company to manage it after completion of the De-SPAC Transaction.

408. These are important differences that, in the view of the Takeovers Executive, justify a different approach in respect of the application of the Takeovers Code to a De-SPAC Transaction.

409. Given the unique features of SPAC, the Takeovers Executive considers it unreasonable to expect or require the owner of the De-SPAC Target to make a mandatory general offer as a result of completing a De-SPAC Transaction. It is also illogical to expect the seller of the De-SPAC Target to "buy out" SPAC Investors (and in more extreme circumstances, potentially privatise the Successor Company) as a consequence of the De-SPAC Transaction.

410. For the following reasons, the Takeovers Executive also believes that the application of the whitewash waiver regime would not be appropriate:

(a) The philosophy behind the whitewash waiver dispensation is that independent shareholders are given an opportunity to approve or reject a change or consolidation of control of the company when that change of control is achieved as a result of the issue of new shares and hence a corporate action of the company they have invested in. However, as explained above, SPAC Investors would have anticipated a De-SPAC Transaction and possible change of control at the outset of their investment, and any change of control in the SPAC is part and parcel of the De-SPAC Transaction. If an investor disagrees with a proposed De-SPAC Transaction, it may vote against that De-SPAC Transaction and exercise their redemption rights.

(b) The whitewash waiver regime requires 75% independent shareholders' approval for the waiver and 50% independent shareholders' approval for the

underlying transaction. This would effectively raise the voting threshold for the approval of the De-SPAC Transaction from 50% to 75%. If there are valid regulatory reasons to increase the approval threshold for a De-SPAC Transaction to be above 50%, this should be addressed as part of the overall regulatory regime for SPACs, and not via the Takeovers Code.

(c) Moreover, regardless of whether the whitewash approval threshold is 50% or 75%, if a whitewash waiver is not obtained, the owner of the De-SPAC Target would be required to make a mandatory general offer in order to proceed with the De-SPAC Transaction. However, as discussed above, having regard to the very nature of SPACs, it would be illogical to require the owner of a De-SPAC Target to make an offer immediately following the "listing" of the De-SPAC Target (which could result in a possible privatisation of the Successor Company).

Proposals

411. Following consultation with the Takeovers Panel, the Takeovers Executive proposes that the application of Rule 26.1 of the Takeovers Code in relation to a De-SPAC Transaction which would result in the owner of the De-SPAC Target obtaining 30% or more of the voting rights should normally be waived. This would require a formal application to be made by the owner of the De-SPAC Target to the Takeovers Executive prior to the announcement of the De-SPAC Transaction.

412. In circumstances where a third party (not being the owner of the De-SPAC Target) will obtain Code-control (or otherwise consolidates control by crossing the 2% creeper threshold) of the Successor Company following completion of the De-SPAC Transaction, the Takeovers Executive will not normally grant a waiver of the application of Rule 26.1 of the Takeovers Code.

413. This is because, while it may be within the general expectations of the investors in a SPAC that the owner of the De-SPAC Target will become the controlling shareholder of the Successor Company to ensure that such owner will continue to have significant influence over the business of the De-SPAC Target and to manage it after completion of the De-SPAC Transaction, the same cannot be said for a third party obtaining control of the Successor Company. In any event, the Takeovers Executive should be consulted in advance in respect of any De-SPAC Transaction the completion of which would result in a third party (not being the owner of the De-SPAC Target) becoming the new controlling shareholder of the Successor Company.

414. In granting a waiver of the application of Rule 26.1 of the Takeovers Code to the owner of a De-SPAC Target, the Takeovers Executive will consider various factors such as (but not limited to): (a) the holdings of the owner of the De-SPAC Target and parties acting in concert with it in the shares of the SPAC and any dealings by such persons during the SPAC Period prior to the announcement of the De-SPAC Transaction; and (b) any relationship(s) between the owner of the De-SPAC Target and the SPAC Promoters and parties acting in concert with any of them. For the avoidance of doubt, if in any case the Takeovers Executive does not consider it appropriate to grant a waiver to the owner of a De-SPAC Target, Rule 26.1 of the Takeovers Code will apply to the relevant De-SPAC Transaction.

415. The Takeovers Executive proposes to issue a new Practice Note to provide further guidance (including the information required in an application for a waiver of the application of Rule 26.1 of the Takeovers Code) to market practitioners if the proposal is adopted.

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? Please give reasons for your views.

III. Successor Company

416. For the avoidance of doubt, the Takeovers Executive takes the view that the Takeovers Code will apply in full to a Successor Company as it is expected to be a typical publicly-listed company in Hong Kong.

(F) DE-LISTING CONDITIONS

I. Deadlines

Jurisdictional comparison

417. The US stock exchange rules generally stipulate that a SPAC must complete a De-SPAC Transaction within 36 months of its IPO without further extension.[252] However, many US listed SPACs voluntarily set a shorter deadline of 24 months.

418. The UK Conclusions Paper provides a deadline of 24 months (subject to an extension of up to 12 months to be approved by public shareholders[253]). The period of 24 months or 36 months (if extended) can be further extended by a maximum of six months without the need for shareholder approval under limited circumstances, for example, where the shareholder meeting for a De-SPAC Transaction has been convened or the shareholder approval has been obtained and more time is needed to finalise the De-SPAC Transaction. Such extension must be notified to the market before the end of 24 months or 36 months (if extended).[254]

419. The SGX Consultation Paper initially proposed a deadline of 36 months (subject to an extension to be approved by independent shareholders[255] with a special resolution and upon application to SGX).[256] To encourage SPACs to expeditiously identify suitable targets and not to hold onto shareholders' investment in escrow for a prolonged period of time, the SGX revises the deadline in the SGX Response Paper to 24 months, with the following options for time extension of up to 12 months.[257]

(a) where a binding agreement for the De-SPAC Transaction has been entered into by the end of the 24-month period, the deadline can be automatically extended without the need for shareholder approval; and

(b) other than the scenario specified in (a) above, a SPAC must seek the respective approvals from the SGX and SPAC shareholders (by a special resolution)[258] for time extension.

Comments made in preliminary discussions with stakeholders

420. Participants at the Exchange's preliminary discussions with stakeholders generally preferred a deadline that was shorter than 36 months for the completion of a De-SPAC

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[252] NASDAQ IM-5101-2(b); NYSE Listed Company Manual Section 102.06(e); and NYSE American Company Guide Section 119(b).

[253] A public shareholder means a shareholder who is not a founding shareholder, a SPAC sponsor or a director.

[254] UK Conclusions Paper, paragraphs 2.17 and 2.21.

[255] Excluding founding shareholders, the management and their respective associates.

[256] SGX Consultation Paper, paragraphs 4.1 and 4.2.

[257] SGX Response Paper, paragraphs 2.76 and 2.78, page 21.

[258] A SPAC's founding shareholders, its management team and their respective associates are allowed to vote on the time extension, based on their respective shareholding in the SPAC (excluding holdings of the Promoter Shares).

Transaction and noted that the practice in the US was for a 24 month deadline.

Proposals

421. We do not wish to set a deadline that causes a SPAC Promoter to rush to engage in a sub-optimal De-SPAC Transaction that is not in the best interests of SPAC Investors. However, we also believe that the lifetime of a SPAC should be as short as possible to limit the period within which any issues associated with cash companies (e.g. speculative trading in their shares) can occur.

422. We also acknowledge that our proposal that a SPAC appoint an IPO Sponsor to conduct due diligence on a De-SPAC Target (see paragraphs 265 to 270) means that SPACs may need more time to comply with this requirement than is common in the US, which does not have an equivalent IPO Sponsor regime.

423. We therefore propose the following deadlines with an extension option. We propose that a SPAC:

De-SPAC Announcement deadline

(a) publish a De-SPAC Announcement within 24 months of the date of its listing.[259]

De-SPAC Transaction deadline

(b) complete a De-SPAC Transaction within 36 months of the date of its listing.[260]

Consequences of failure to meet deadlines

424. We propose to immediately suspend the trading of a SPAC's securities if it fails to publish a De-SPAC Announcement within the De-SPAC Announcement Deadline or fails to complete a De-SPAC Transaction within the De-SPAC Transaction Deadline.

425. During such a trading suspension, the SPAC must return the funds it raised from its initial offering to its shareholders, liquidate and de-list in accordance with the proposals set out in the "Liquidation and De-listing" section below unless it is granted an extension (see paragraphs 435 and 436).

De-SPAC deadline extension request

426. We propose to permit a SPAC to make a request to the Exchange for an extension of either a De-SPAC Announcement Deadline or a De-SPAC Transaction Deadline. A SPAC must, in the opinion of the Exchange, have a valid reason for the request.[261]

427. The request must include confirmation to the Exchange that the SPAC has received

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[259] Ending at midnight on the second anniversary of the listing date of the SPAC.

[260] Ending at midnight on the third anniversary of the listing date of the SPAC.

[261] For the avoidance of doubt, the Exchange would view time needed to appeal a decision made against the SPAC by the Exchange or the SFC and for the appeal process to complete, as a valid reason for an extension.

the approval of the extension by an ordinary resolution of its shareholders at a general meeting (on which the SPAC Promoters and their respective close associates must abstain from voting). We propose that any such extension be for a period of a maximum of six months.

428. The Exchange will retain discretion to approve or reject such an extension request.[262]

Redemption opportunity

429. We also propose that prior to a vote on an extension of a De-SPAC Announcement Deadline or a De-SPAC Transaction Deadline at a general meeting, holders of SPAC Shares be given the opportunity to elect to redeem their shares at the price at which they were issued in the SPAC's initial offering, plus accrued interest. This must follow the redemption procedure set out above (see paragraphs 355 to 361).

430. The Exchange believes the mechanism above would give SPAC shareholders the opportunity to consider the risks and benefits of continuing to hold an investment in the SPAC and provide them with a mechanism to retrieve that investment to safeguard their interests.

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)? Please give reasons for your views.
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)? Please give reasons for your views.
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)? Please give reasons for your views.

[262] We propose that the Listing Division have the power to make this decision, in the first instance, with a SPAC having the right to appeal the decision to the Listing Committee.

II. Liquidation and De-Listing

Jurisdictional comparison

431. In the US, if a SPAC fails to complete a De-SPAC Transaction within the stipulated deadline, the SPAC must be delisted from the relevant stock exchange.[263] NYSE then expressly requires the SPAC to liquidate and prohibits the SPAC Promoters to participate in the liquidation distribution in respect of ordinary shares held prior to the IPO or purchased in any private placement in conjunction with the IPO, including the shares underlying any Promoter Warrants.[264]

432. The UK Conclusions Paper requires that the gross proceeds from a SPAC's initial public offering (excluding proceeds to fund pre-agreed SPAC's running costs) be distributed to public shareholders as soon as possible if the De-SPAC Transaction has not been completed by the stipulated deadline. [265]

433. SGX Response Paper requires that, in the event of failing to (i) complete a De-SPAC Transaction by the stipulated deadline or (ii) obtaining shareholders' approval as described in paragraphs 208 and 419, a SPAC must be liquidated and delisted. SPAC shareholders (excluding the founding shareholders, the management team and their associates in respect of all equity securities owned or acquired prior to or pursuant to the listing) must receive the amount held in trust at the time of the liquidation distribution, net of taxes payable and direct expenses related to the liquidation distribution and inclusive of any interest and income accrued, on a pro rata basis as soon as practicable.[266]

Comments made in preliminary discussions with stakeholders

434. Participants at our preliminary discussions generally agreed on setting a requirement for liquidation and delisting if a SPAC fails to complete a De-SPAC Transaction within stipulated deadlines.

Proposals

435. We propose that, if a SPAC fails to (a) announce / complete a De-SPAC Transaction within the deadlines that apply (including any extensions granted to those deadlines) (see paragraphs 423 to 428); or (b) obtain the requisite shareholder approval for a material change in SPAC Promoters (see paragraphs 218 and 219) within one month of the material change, the Exchange will suspend the trading of a SPAC's securities and the SPAC must, within one month of such suspension, return to its shareholders (excluding, for the avoidance of doubt, holders of the Promoter Shares), on a pro rata basis, 100% of the funds it raised at its initial offering, at the price at which its shares

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[263] NASDAQ IM-5101-2; NYSE Listed Company Manual Section 102.06(e) & (f); and NYSE American Company Guide Section 119(f).

[264] NYSE Listed Company Manual Section 102.06(e) & (f).

[265] UK Conclusions Paper, paragraph 2.17.

[266] SGX Mainboard Rule 210(11)(n)(ii).

were issued, plus accrued interest.

436. After returning these funds to its shareholders, the SPAC must liquidate. The Exchange will automatically cancel the listing of a SPAC upon the completion of its liquidation.[267]

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) 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? Please give reasons for your views.
Question 65	If your answer to Question 64 is "Yes", 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? Please give reasons for your views.

[267] In accordance with Rule 6.01.

(G) CONSEQUENTIAL MODIFICATIONS AND EXEMPTIONS

Proposals

437. We propose to exempt (or impose modified requirements on) SPACs from the following requirements on the basis that they are newly-formed cash companies with no business operations (or track record of business operations) whose purpose is to conduct a De-SPAC Transaction:

(a) with regard to an IPO Sponsor's conduct of due diligence, Paragraph 17 of the SFC's Code of Conduct and Practice Note 21 of the Listing Rules should be complied with by an IPO Sponsor to the extent applicable;

(b) the profit, revenue, cash flow, and track record requirements for a new listing[268];

(c) the requirement that the share capital of a new applicant must not include shares of which the proposed voting power does not bear a reasonable relationship to the equity interest of such shares.[269] This is only to the extent that a SPAC is permitted to issue Promoter Shares at a nominal value to a SPAC Promoter that carry the right to vote at general meetings and may carry a special right to nominate and/or appoint persons to the board of a SPAC;

(d) the inclusion of a history of financial results in the accountant's report of a Listing Document produced by a new applicant[270];

(e) the carrying out, directly or indirectly, of a business with a sufficient level of operations and assets of sufficient value to support its operations to warrant the continued listing of an issuer's securities[271];

(f) the suitability for listing of a group with assets consisting wholly or substantially of cash and/or short-term investments[272];

(g) the suitability for listing of cash companies[273]; and

(h) the prohibition, in the period of 12 months from the date of listing, of any acquisition, disposal or other transaction or arrangement, or a series of acquisitions, disposals or other transactions or arrangements, that would result in a fundamental change in the principal business activities of the listed issuer as described in the Listing Document issued at the time of its application for

[268] Rules 8.05 and 8.09. We propose SPACs are exempt from market capitalisation requirements as we anticipate that their market capitalisation will be based, primarily, upon the funds they raise at their initial offering. We propose instead that SPACs meet a minimum initial offering fund raising size (see paragraphs 193 to 196).

[269] Rule 8.11.

[270] Rule 4.04(1).

[271] Rules 13.24 and 6.01(3).

[272] Rule 8.05C.

[273] Rule 14.82.

listing[274].

438. We propose to modify the requirement that a listing application for or on behalf of a new applicant be submitted no earlier than two months after the date of the IPO Sponsor's formal appointment.[275] In the circumstances of an application for listing of a SPAC, we propose to reduce this requirement to one month. We believe enough time should be allowed for the IPO Sponsor to complete due diligence to determine such matters as whether the SPAC Promoter and the SPAC's internal controls meet Listing Rule requirements prior to the submission of a "substantially complete" listing application.[276]

439. We propose that SPACs would be subject to the same periodic financial reporting requirements as other listed issuers. However, we seek feedback on respondents on whether it is appropriate to exempt SPACs from any Listing Rule disclosure requirement prior to a De-SPAC Transaction (e.g. Corporate Governance and Environmental, Social and Governance reporting requirements), or modify those requirements for SPACs, given that the nature of a SPAC means that it does not have any business operations.

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? Please give reasons for your views.
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? Please give reasons for your views.
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? Please give reasons for your views.

[274] Rules 14.89 and 14.90.

[275] Rule 3A.02B., as the due diligence required of an IPO Sponsor prior to the submission of a listing application will be minimal for an applicant without business operations.

[276] A two month IPO Sponsor appointment period is required for a De-SPAC Transaction (see paragraph 266).

DEFINITIONS

TERM	DEFINITION
"Biotech Company"	has the same meaning ascribed to it in Rule 18A.01
"board control"	in a position to control the composition of a majority of the board of directors
"CWUMPO"	the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32)
"De-SPAC Announcement"	an announcement of the finalisation of the terms of a De-SPAC Transaction
"De-SPAC Announcement Deadline"	The deadline within which a SPAC must publish a De-SPAC Announcement (see paragraph 423(a))
"De-SPAC Target"	an unlisted issuer with business operations that is the target of a De-SPAC Transaction with a SPAC
"De-SPAC Transaction Deadline"	the deadline within which a SPAC must complete a De-SPAC Transaction (see paragraph 423(b))
"De-SPAC deadline extension"	an extension to either a De-SPAC Announcement Deadline or a De-SPAC Transaction Deadline
"De-SPAC Transaction"	a business combination between a SPAC and a De-SPAC Target that results in the listing of a Successor Company
"Exchange"	The Stock Exchange of Hong Kong Limited, a wholly owned subsidiary of HKEX
"Exchange Participant"	a person: (a) who, in accordance with the Rules of the Exchange, may trade on or through the Exchange; and (b) whose name is entered in a lit, register or roll kept by the Exchange as a person who may trade on or through the Exchange (being the same definition as that of Chapter 1 of the Listing Rules)
"GEM"	GEM operated by the Exchange
"Hay Davison Report"	Report of the Securities Review Committee headed by Mr. Ian Hay Davison to review, among other things, the constitution, powers, management and operation of the government offices responsible for regulating respectively the securities and futures markets at the time; and to recommend changes that were desirable to ensure the integrity of the markets and to protect investors
"HKEX"	Hong Kong Exchanges and Clearing Limited
"IBC"	independent board committee
"IFA"	independent financial adviser

TERM	DEFINITION
"Individual Professional Investors"	persons falling under paragraph (j) of the definition of "professional investor" in section 1 of Part 1 of Schedule 1 to the SFO, being the following persons as prescribed by the Securities and Futures (Professional Investor) Rules (Cap 571D): (i) trust corporations, corporations or partnerships as specified in sections 4, 6 and 7 of the Securities and Futures (Professional Investor) Rules (Cap 571D); or (ii) individuals as specified in section 5 of the Securities and Futures (Professional Investor) Rules (Cap 571D)
"Inside Information"	has the same meaning ascribed to it in Section 307A of the SFO
"Institutional Professional Investors"	persons falling under paragraphs (a) to (i) of the definition of "professional investor" in section 1 of Part 1 of Schedule 1 to the SFO
"IPO"	initial public offering, including in the context of the proposed SPAC listing regime in HK as discussed in this paper, initial offering of SPAC Shares by a SPAC to Professional Investors
"IPO Sponsor"	any corporation or authorised financial institution, licensed or registered under the SFO for Type 6 regulated activity and permitted under its licence or certificate of registration to undertake work as a sponsor and, as applicable, which is appointed as a sponsor pursuant to Rule 3A.02
"Joint Study"	"A Sober Look at SPACs", a joint study by Michael Klausner (Nancy and Charles Munger Professor of Business and Professor of Law at Stanford Law School), Michael Ohlrogge (Assistant Professor of New York University School of Law) and Emily Ruan (Research Associate of Stanford Law School), 28 October 2020
"Listing Committee"	The Listing Committee of the Exchange. Please see HKEX website for further details.
"Listing Document"	a Prospectus, a circular or any equivalent document (including a scheme of arrangement and introduction document) issued or proposed to be issued in connection with an application for listing
"Listing Rules" or "Rules"	the Rules Governing the Listing of Securities on the Exchange (Main Board unless otherwise stated)
"LSE"	The London Stock Exchange
"Main Board"	the main board of the Exchange
"Mainland China"	for the purpose of this paper, means the People's Republic of China, other than the regions of Hong Kong, Macau and Taiwan
"NASDAQ"	The NASDAQ Stock Market, Inc.
"NYSE"	The New York Stock Exchange

TERM	DEFINITION
"OIEA"	the SEC's Office of Investor Education and Advocacy
"PIPE"	in a US context, means Private Investments in Public Equity – the purchase of ordinary shares (or preferred stock that is convertible to ordinary shares) at a predetermined price (or exchange rate) in a private placement; and in the context of Hong Kong, means an outside third party investment, for the purposes of completing a De-SPAC Transaction, that has been negotiated prior to the announcement of that transaction and is included in the terms of that transaction
"Professional Investor"	an Institutional Professional Investor or an Individual Professional Investor
"Promote"	the financial incentive for a SPAC Promoter to complete a De-SPAC Transaction received in the form of Promoter Shares
"Promoter Share"	a share of a separate class to SPAC Shares issued by a SPAC exclusively to a SPAC Promoter at nominal consideration as a financial incentive to establish and manage the SPAC.
"Promoter Warrant"	a warrant of a separate class to SPAC Warrants issued by a SPAC exclusively to a SPAC Promoter
"Prospectus"	a prospectus as defined in Part 1, Division 2 of the CWUMPO
"Proxy Statement"	a public filing made by a US listed company with SEC for merger and acquisition transactions requiring shareholders' approval
"REITs"	Real Estate Investment Trusts
"RTO"	as defined by Main Board Listing Rule 14.06B i.e. an acquisition or a series of acquisitions of assets by a listed issuer which, in the opinion of the Exchange, constitutes, or is part of a transaction and/or arrangement or series of transactions and/or arrangements which constitute, an attempt to achieve a listing of the acquisition targets and a means to circumvent the requirements for new applicants
"S-4 registration statement"	a public filing made by a US listed company with SEC for the purposes of registering securities to be issued in merger and acquisition transactions that involve an offer and sale of securities to shareholders of a target company and for exchange offers
"Sampled Greater China SPACs"	Ten US listed SPACs that completed a De-SPAC Transaction with a De-SPAC Target based in the Mainland China and/or Hong Kong between August 2017 and November 2020
"SEC"	US Securities and Exchange Commission
"SFC"	Securities and Futures Commission
"SFC's Code of Conduct"	Code of Conduct for Persons Licensed by or Registered with the SFC
"SFO"	Securities and Futures Ordinance (Cap. 571)
"SGX"	Singapore Exchange Limited

TERM	DEFINITION
"SGX Consultation Paper"	"Consultation Paper on Proposed Listing Framework for Special Purpose Acquisition Companies" published by SGX on 31 March 2021
"SGX Response Paper"	"Response Paper on Proposed Listing Framework for Special Purpose Acquisition Companies" published by SGX on 2 September 2021
"SGX Main Board"	the Main Board of SGX
"S&P 500 Index"	Standard & Poor 500 Index
"SPAC"	an issuer with, or seeking, a listing that has no operating business and is established for the sole purpose of conducting a transaction in respect of a business combination with a target, within a pre-defined time period, to achieve the listing of the target
"SPAC directors"	includes any person who occupies the position of a director of a SPAC, by whatever name called
"SPAC employees"	the employees of a SPAC
"SPAC Exchange Participant"	an Exchange Participant wishing to use the Exchange's facilities to trade SPAC Shares and SPAC Warrants
"SPAC Investor"	an investor in a SPAC either at the time of its initial offering or thereafter and holding any of: SPAC Units, SPAC Shares or SPAC Warrants.
"SPAC Period"	the period during which a SPAC remains listed until the completion of a De-SPAC Transaction
"SPAC Promoter"	a professional manager, usually with private equity, corporate finance and/or industry experience, who establish and manage a SPAC. Also known as a "SPAC sponsor" in the US
"SPAC Share"	a share of a SPAC that is not a Promoter Share
"SPAC Unit"	a unit of a SPAC consisting of stapled SPAC Shares and SPAC Warrants in a particular ratio.
"SPAC Warrant"	a warrant that provides the holder with the right to purchase a share that is not a Promoter Warrant
"Successor Company"	the listed issuer resulting from the completion of a De-SPAC Transaction
"Takeovers Code"	the SFC's Codes on Takeovers and Mergers and Share Buy-backs
"Takeovers Executive"	the Executive Director of the Corporate Finance Division of the SFC or any delegate of such Executive Director
"Takeovers Panel"	the Takeover and Mergers Panel of the SFC
"UK"	the United Kingdom
"UK Consultation Paper"	"CP21/10: Investor protection measures for special purpose acquisition companies: Proposed changes to the Listing Rules" published by the UK FCA on 30 April 2021.

TERM	DEFINITION
"UK Conclusions Paper"	"PS21/10: Investor protection measures for special purpose acquisition companies: Changes to the Listing Rules" published by the UK FCA on 27 July 2021.
"UK FCA"	the UK's Financial Conduct Authority
"UK Listing Review"	report entitled "UK Listing Review" published on 3 March 2021
"UK Listing Rules"	rules published by the UK FCA and contained in the Listing Rules sourcebook as part of the FCA Handbook
"US"	the United States of America
"US Securities Act"	the US Securities Act of 1933, as amended from time to time, and the rules and regulations promulgated thereunder
"UT Code"	Code on Unit Trusts and Mutual Funds administered by the SFC as set out in Section II of the SFC Handbook for Unit Trusts and Mutual Funds, Investment-Linked Assurance Schemes and Unlisted Structured Investment Products
"Volatility Control Mechanism" or "VCM"	an Exchange mechanism designed to protect the market from disorderliness caused by extreme price volatility
"weighted voting right" or "WVR"	the voting power attached to a share of a particular class that is greater or superior to the voting power attached to an ordinary share, or other governance right or arrangement disproportionate to the beneficiary's economic interest in the equity securities of the issuer
"WVR structure"	a structure of an issuer that results in any shareholder having WVR

PRIVACY POLICY STATEMENT

Privacy Policy Statement

Hong Kong Exchanges and Clearing Limited, and from time to time, its subsidiaries (together the "**Group**") (and each being "**HKEX**", "**we**", "**us**" or "**member of the Group**" for the purposes of this Privacy Policy Statement as appropriate) recognise their responsibilities in relation to the collection, holding, processing, use and/or transfer of personal data under the Personal Data (Privacy) Ordinance (Cap. 486) ("**PDPO**"). Personal data will be collected only for lawful and relevant purposes and all practicable steps will be taken to ensure that personal data held by us is accurate. We will use your personal data which we may from time to time collect in accordance with this Privacy Policy Statement.

We regularly review this Privacy Policy Statement and may from time to time revise it or add specific instructions, policies and terms. Where any changes to this Privacy Policy Statement are material, we will notify you using the contact details you have provided us with and, where required by the PDPO, give you the opportunity to opt out of these changes by means notified to you at that time. Otherwise, in relation to personal data supplied to us through the HKEX website or otherwise, continued use by you of the HKEX website or your continued relationship with us shall be deemed to be your acceptance of and consent to this Privacy Policy Statement, as amended from time to time.

If you have any questions about this Privacy Policy Statement or how we use your personal data, please contact us through one of the communication channels set out in the "Contact Us" section below.

We will take all practicable steps to ensure the security of the personal data and to avoid unauthorised or accidental access, erasure or other use. This includes physical, technical and procedural security methods, where appropriate, to ensure that the personal data may only be accessed by authorised personnel.

Please note that if you do not provide us with your personal data (or relevant personal data relating to persons appointed by you to act on your behalf) we may not be able to provide the information, products or services you have asked for or process your requests, applications, subscriptions or registrations, and may not be able to perform or discharge the Regulatory Functions (defined below).

Purpose

From time to time we may collect your personal data including but not limited to your name, mailing address, telephone number, email address, date of birth and login name for the following purposes:

1. to process your applications, subscriptions and registration for our products and services;

2. to perform or discharge the functions of HKEX and any company of which HKEX is the recognised exchange controller (as defined in the Securities and Futures Ordinance (Cap. 571)) ("Regulatory Functions");

3. to provide you with our products and services and administer your account in relation to

such products and services;

4. to conduct research and statistical analysis;

5. to process your application for employment or engagement within HKEX to assess your suitability as a candidate for such position and to conduct reference checks with your previous employers; and

6. other purposes directly relating to any of the above.

Direct marketing

Where you have given your consent and have not subsequently opted out, we may also use your name, mailing address, telephone number and email address to send promotional materials to you and conduct direct marketing activities in relation to HKEX financial services and information services, and financial services and information services offered by other members of the Group.

If you do not wish to receive any promotional and direct marketing materials from us or do not wish to receive particular types of promotional and direct marketing materials or do not wish to receive such materials through any particular means of communication, please contact us through one of the communication channels set out in the "Contact Us" section below. To ensure that your request can be processed quickly please provide your full name, email address, log in name and details of the product and/or service you have subscribed.

Identity Card Number

We may also collect your identity card number and process this as required under applicable law or regulation, as required by any regulator having authority over us and, subject to the PDPO, for the purpose of identifying you where it is reasonable for your identity card number to be used for this purpose.

Transfers of personal data for direct marketing purposes

Except to the extent you have already opted out we may transfer your name, mailing address, telephone number and email address to other members of the Group for the purpose of enabling those members of the Group to send promotional materials to you and conduct direct marketing activities in relation to their financial services and information services.

Other transfers of personal data

For one or more of the purposes specified above, the personal data may be:

1. transferred to other members of the Group and made available to appropriate persons in the Group, in Hong Kong or elsewhere and in this regard you consent to the transfer of your data outside of Hong Kong;

2. supplied to any agent, contractor or third party who provides administrative, telecommunications, computer, payment, debt collection, data processing or other services to HKEX and/or any of other member of the Group in Hong Kong or elsewhere; and

3. other parties as notified to you at the time of collection.

How we use cookies

If you access our information or services through the HKEX website, you should be aware that cookies are used. Cookies are data files stored on your browser. The HKEX website automatically installs and uses cookies on your browser when you access it. Two kinds of cookies are used on the HKEX website:

Session Cookies: temporary cookies that only remain in your browser until the time you leave the HKEX website, which are used to obtain and store configuration information and administer the HKEX website, including carrying information from one page to another as you browse the site so as to, for example, avoid you having to re-enter information on each page that you visit. Session cookies are also used to compile anonymous statistics about the use of the HKEX website.

Persistent Cookies: cookies that remain in your browser for a longer period of time for the purpose of compiling anonymous statistics about the use of the HKEX website or to track and record user preferences.

The cookies used in connection with the HKEX website do not contain personal data. You may refuse to accept cookies on your browser by modifying the settings in your browser or internet security software. However, if you do so you may not be able to utilise or activate certain functions available on the HKEX website.

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HKEX and other members of the Group may be required to retain, process and/or disclose your personal data in order to comply with applicable laws and regulations or in order to comply with a court order, subpoena or other legal process (whether in Hong Kong or elsewhere), or to comply with a request by a government authority, law enforcement agency or similar body (whether situated in Hong Kong or elsewhere) or to perform or discharge the Regulatory Functions. HKEX and other members of the Group may need to disclose your personal data in order to enforce any agreement with you, protect our rights, property or safety, or the rights, property or safety of our employees, or to perform or discharge the Regulatory Functions.

Corporate reorganisation

As we continue to develop our business, we may reorganise our group structure, undergo a change of control or business combination. In these circumstances it may be the case that your personal data is transferred to a third party who will continue to operate our business or a similar service under either this Privacy Policy Statement or a different privacy policy statement which will be notified to you. Such a third party may be located, and use of your personal data may be made, outside of Hong Kong in connection with such acquisition or reorganisation.

Access and correction of personal data

Under the PDPO, you have the right to ascertain whether we hold your personal data, to obtain a copy of the data, and to correct any data that is inaccurate. You may also request us to inform you of the type of personal data held by us. All data access requests shall be made

using the form prescribed by the Privacy Commissioner for Personal Data ("**Privacy Commissioner**") which may be found on the official website of the Office of the Privacy Commissioner or via this link

https://www.pcpd.org.hk/english/publications/files/Dforme.pdf

Requests for access and correction of personal data or for information regarding policies and practices and kinds of data held by us should be addressed in writing and sent by post to us (see the "Contact Us" section below).

A reasonable fee may be charged to offset our administrative and actual costs incurred in complying with your data access requests.

Termination or cancellation

Should your account or relationship with us be cancelled or terminated at any time, we shall cease processing your personal data as soon as reasonably practicable following such cancellation or termination, provided that we may keep copies of your data as is reasonably required for archival purposes, for use in relation to any actual or potential dispute, for the purpose of compliance with applicable laws and regulations and for the purpose of enforcing any agreement we have with you, for protecting our rights, property or safety, or the rights, property or safety of our employees, and for performing or discharging our functions, obligations and responsibilities.

General

If there is any inconsistency or conflict between the English and Chinese versions of this Privacy Policy Statement, the English version shall prevail.

Contact us

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HISTORY OF THE REGULATION OF SHELL COMPANIES IN HONG KONG

Over the years, the Exchange has conducted a number of reviews of the Listing Rules and adopted practices with a view to improving the regulation of backdoor listings and shell activities. The Exchange has taken a three-pronged approach to curb shell activities (see press release 29 June 2018) by:

(a) tightening its suitability review of new applicants to address concerns on shell creation through IPOs;

(b) enhancing the continuing listing criteria for listed issuers to deter the manufacturing and maintenance of listed shells; and

(c) tightening the RTO Rules to prevent backdoor listings particularly those involving shell companies.

The table below illustrates changes to the Listing Rules and guidance over time to tackle the issue of shell companies:

Date	Regulatory developments in Hong Kong
May 1988	**The Report of the Securities Review Committee (or the "Hay Davison Report"** [277] was published. One of the observations included in the Hay Davison Report was in respect of shell companies and acquisitions. It was noted that listing applicants *"have adopted the stratagem of buying a company which already has a listing and which has ceased active business*", and "*those involved had stated openly that this was to avoid the full rigour of listing procedures which have been established to protect the investing public by ensuring that full details of the proposed investment are published before the investment is made*". The Hay Davison Report recommended that the listing of any company which ceased to trade should be cancelled, and if such company was acquired by a purchase and a major change of business was intended, full listing requirements should be imposed.[278]

[277] Following the stock market crash in October 1987, the then Governor appointed the Securities Review Committee (SRC) headed by Mr Ian Hay Davison to review, among other things, the constitution, powers, management and operation of the government offices responsible for regulating respectively the securities and futures markets at the time; and to recommend changes that were desirable to ensure the integrity of the markets and to protect investors.

[278] Paragraph 5.27 of the Hay Davison Report.

Date	Regulatory developments in Hong Kong
May 1993	The SFC and the Exchange issued a joint announcement stating that they had increased the level of its scrutiny of "backdoor" listings to ensure the interests of minority shareholders were protected and setting out the principles governing RTO transactions.
August 1993	Following a consultation on **the 1992 Review Of The Rules Governing The Listing Of Securities On Stock Exchange Of Hong Kong Ltd**[279], the Listing Rules were amended in August 1993 to introduce a new rule to prohibit an issuer in the first 12 months following a new listing from effecting any acquisition, disposal or other transaction which would result in a fundamental change in its main undertaking as described in the Listing Document. The Exchange had explained[280] that this was "*another prop in our series of arguments designed to discourage "backdoor listings*" and to avoid getting to "*a position where the international reputation of the Hong Kong market is that we generate shell companies or that our companies have business which are speculative, lack depth and integrity*".
January 1998	Practice Note 17 was introduced to the Listing Rules which formalised the procedures to be adopted in dealing with long suspended companies. This would lead to the *delisting of long suspended companies* where valid resumption proposals were not submitted to the Exchange and not being implemented by the companies within certain period of time.
May 1999	In the Consultation Paper on 1998/1999 Review of Certain Chapters of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, it was proposed that a new category of notifiable transaction, namely "reverse takeover", should be introduced to deal with backdoor listing. Under the proposed rules, an acquisition would be treated as a reverse takeover where it was part of a transaction or arrangement or a series of transactions or arrangements which would result in a change in control of the listed issuer. This consultation however did not lead to a Rule change at that time.

[279] Consultation Paper on the 1992 Review Of The Rules Governing The Listing Of Securities On Stock Exchange Of Hong Kong Ltd. was published in December 1992.

[280] Revisions to the Listing Rules and Corporate Governance" presented by Edd Joanna on 25 September 1993.

Date	Regulatory developments in Hong Kong
July 1999	The GEM Listing Rules were published on 22 July 1999 with specific *RTO Rules* under which an acquisition of assets by an issuer would be classified as "reverse takeover" if it would result in a change in control of the issuer or constituted an attempt to achieve a listing of assets to be acquired and a means to circumvent the requirements for new applicants. Issuers engaged in transactions leading to a "reverse takeover" would be treated as new applicants and must comply with all new listing procedures and listing requirements.
March 2003	Report by the Expert Group to Review the Operation of Securities and Futures Market Regulatory Structure[281] was published. One of the issues identified in the Report was the rising concern about the quality of listings coming to the Exchange including the belief that listings were done to create a "shell" that could later be sold. It was recommended the market quality issues must be addressed and improvements must be made urgently.
March 2004	Following a consultation on **Proposed Amendments to the Listing Rules relating to Corporate Governance Issues**[282], the Listing Rules were amended on 31 March 2004 to introduce *RTO Rules* to the Main Board Listing Rules for the first time. The definition of "reverse takeover" under the GEM Listing Rules was expanded to include any acquisition of assets that would lead to a fundamental change of business of issuers as a reverse takeover and the same requirements for "reverse takeover" were adopted by the Main Board Listing Rules. Following a consultation on **Proposed Amendments to the Listing Rules relating to Initial Listing and Continuing Listing Eligibility and Cancellation of Listing Procedures** [283], the amended Listing Rules which took effect on 31 March 2004 further clarified that in case of "reverse takeover" transactions including *asset injection in rescue situations*, the enlarged group or the assets to be injected would be required to comply with the proposed initial listing eligibility criteria (track record/ financial

[281] An Expert Group was appointed by the Financial Secretary on 26 September 2002 to review the regulatory structure of the securities and futures markets in Hong Kong.

[282] Consultation Paper published in January 2002 and Consultation Conclusions published in January 2003.

[283] Consultation Paper published in July 2002 and Consultation Conclusions published in January 2004.

Date	Regulatory developments in Hong Kong
	standards requirements). This was to ensure that a level playing field was provided for all potential entrants to the Exchange, particularly for potential entrants wishing to use a shell to seek a listing. The Exchange noted that certain market practitioners treated failed companies with a listed status as though the listing itself was of value and explained that if an issuer had failed as a corporate entity, its shell company (a listed company with insufficient assets or operations) should not be entitled to treat the listed status as an asset of value nor to retain its listed status unless an asset meeting the initial listing criteria was injected to it. The underlying principle was to prevent circumvention of the initial listing criteria by an otherwise unqualified listing candidate to obtain a listing status by buying into a listed shell.[284]
May 2014	**Guidance Letter** GL78-14 **on application of the reverse takeover requirements** under Rule 14.06(6) was published to set out the Exchange's current practice on the application of the RTO Rules. In respect of transactions falling outside the bright line tests, the Exchange would apply the *principle based test* to assess whether the acquisition constituted an attempt to achieve a listing of assets to be acquired and a means to circumvent the requirements for new listing.
December 2015	**Guidance Letter** GL84-15 **on Cash Company Rules** was published. The Exchange noted at that time that there had been an increase in listed companies proposing large scale fundraising that involved investors injecting substantial amounts of cash into the companies. The Guidance Letter was to provide guidance on the Exchange's approach to applying cash company rules (Rules 14.82-14.84) to these cases to *address the circumvention of new listing requirements through the injection of cash into listed shells* for the purpose of establishing new businesses.
June 2016	**Guidance Letter** GL68-13A **on suitability of listing** was published. The Exchange noted at that time that there had been a number of listed issuers where their controlling shareholders either changed or had gradually sold down their interests shortly after the regulatory lock-up period following listing and considered that one

[284] Paragraph 120 of Consultation Conclusions on Proposed Amendments to the Listing Rules relating to Initial Listing and Continuing Listing Eligibility and Cancellation of Listing Procedures.

Date	Regulatory developments in Hong Kong
	explanation for such phenomenon was the perceived premium attached to the listing status of such issuers rather than the development of the underlying businesses or assets. This raised questions regarding the suitability of such listings. The Guidance Letter was to provide guidance about the *suitability for listings* of new applicants whose sizes and prospects do not appear to justify the cost or purpose associated with a public listing.
January 2017	The SFC and the Exchange issued a Joint Statement regarding the price volatility of GEM stocks and practices in GEM IPO placings. The SFC had concerns about the high concentrations of shareholdings on GEM IPO placings and the extreme volatility in share prices of these companies. The statement was to provide guidance on SFC's regulatory approach to GEM listing applications.
February 2018	Following the **Consultation on the Review of the Growth Enterprise Market and changes to the GEM and Main Board Listing Rules**[285], the Listing Rules were amended on 15 February 2018 to reflect the new role of GEM as a market for small and mid-sized companies. One of the concerns these amendments sought to address was that "*GEM's lower admission requirements, compared with those of the Main Board, may have been exploited by certain companies to access the Hong Kong capital markets for the premium attached to a listing status (rather than to develop their businesses) and this may have led to an increase in the number of potential shell companies listed on GEM*"[286]. Key amendments include: (a) the removal of the streamlined process for GEM transfers to the Main Board and the introduction of a mandatory IPO Sponsor requirement for such transfers; (b) an increase in the minimum expected market capitalisation and minimum public float value for both GEM and Main Board applicants and an increase in minimum cash flow requirement for GEM applicants; and (c) an extension of the post-IPO lock-up requirement on controlling shareholders from one year to two years for GEM.

[285] Consultation Paper published in June 2017 and Consultation Conclusions published in December 2017.

[286] Paragraph 12(b) of the Consultation Paper.

Date	Regulatory developments in Hong Kong
June - August 2018	Following the **Consultation on Delisting and other Rule Amendments**[287], **Guidance Letter** GL96-18 **on listed issuer's suitability of continued listing** was published in June 2018 to provide guidance on circumstances where *suitability for continued listing* under Rule 6.01(4) would be a concern, including circumstances where listed issuers may exhibit "shell" characteristics. Further, on 1 August 2018, the Listing Rules were amended to establish a delisting framework to **facilitate timely delisting of issuers that no longer meet the continuing listing criteria** and provide certainty to the market on the delisting process. Key amendments include: (a) adding a separate delisting criterion to allow the Exchange to delist an issuer after a trading suspension of 18 continuous months (or, for GEM issuers, 12 continuous months); and (b) allowing the Exchange to publish a delisting notice stating its right to delist an issuer if the issuer fails to resume trading within the period specified in the notice, or to delist the issuer immediately in appropriate circumstances.
October 2019	Following the **Consultation on Backdoor Listing, Continuing Listing Criteria and other Rule Amendments**[288], the Listing Rules were amended on 1 October 2019 to *enhance both the RTO Rules and the continuing listing* criteria to address evolving market practices in backdoor listing and improve the regulation of shell activities. The Exchange had noted an increase in market activities related to the trading of, and the creation of, shell companies which had invited speculative trading, market manipulation, insider trading and unnecessary volatility in the market. Key amendments include: (a) in respect of backdoor listing, amending the definition of RTO to codify Guidance Letter GL78-14 and GL84-14 and modify the bright line tests to apply to very substantial acquisitions from an issuer's controlling shareholder within 36 months from a change in control of the issuer, and tightening the compliance requirement for RTOs and extreme transactions; and (b) in respect of continuing listing criteria, amending Rule 13.24 (sufficient operations) to require an issuer to

[287] Consultation Paper published in September 2017 and Consultation Conclusions published in May 2018.

[288] Consultation Paper published in June 2018, Consultation Conclusions published in July 2019.

Date	Regulatory developments in Hong Kong
	carry out a business with a sufficient level of operations and to have assets of sufficient value to support its operations to warrant its continued listing, and amending Rules 14.82 and 14.83 in relation to cash companies. The following guidance letters were also published to provide guidance on the application of the amended rules: - **Guidance on application of the reverse takeover rules** (**HKEX-GL104-19**) - **Guidance on large scale issues of securities** (**HKEX-GL105-19**) - **Guidance on sufficiency of operations** (**HKEX-GL106-19**)
July 2019	The SFC published Statement on the SFC's approach to backdoor listings and shell activities on 26 July 2019 to explain the general approach of the SFC to cases involving backdoor listings and shell activities using its statutory powers under the Securities and Futures (Stock Market Listing) Rules (SMLR) and the Securities and Futures Ordinance. The SFC noted that the problems associated with backdoor listings and shell activities had attracted wide attention and the means by which backdoor listings were achieved had evolved in ways that made them hard to detect or regulate.

JURISDICTIONAL COMPARISON

	US (NYSE and NASDAQ)	UK[289] (Main Market of LSE)	Singapore [290] (Main Board of SGX)
(A)	**CONDITIONS FOR LISTING**		
I.	**Investor Suitability**		
	• No restriction • Retail investors allowed to participate in IPO		
II.	**Arrangements to Ensure Marketing to and Trading by Professional Investors only**		
	Not applicable.		
III.	**Trading Arrangements - Separate trading of SPAC Shares and SPAC Warrants**		
	• Allowed and usually at the discretion of the unitholder to exchange SPAC Units into SPAC Shares and SPAC Warrants 52 days after IPO	• Allowed • Listing of stapled units are being considered by the UK FCA[291]	• Allowed [292]

[289] Based on the revised rules in the UK Conclusions Paper.

[290] Based on the finalised rules in the SGX Response Paper.

[291] UK Conclusions Paper, paragraph 2.5.

[292] SGX Response Paper, paragraph 3.31 on page 49.

	US (NYSE and NASDAQ)	UK[289] (Main Market of LSE)	Singapore [290] (Main Board of SGX)
IV.	**Open Market Requirements**		
	NYSE: • >= 300 "round lot" holders[293] and 1.1 million publicly-held shares[294] *NYSE American:* • >=400 public shareholders and 1 million publicly-held shares ; or • >=800 public shareholders and 500,000 publicly-held shares[295] *NASDAQ Capital Market:* • >= 300 "round lot" holders and 1 million publicly-held shares[296] *NASDAQ Global Market:* • >= 400 "round lot" holders and 1.1	No minimum threshold but requires 25% public float required[298]	25% of SPAC's issued shares to be held by at least 300 public shareholders[299]

[293] A "round lot" holder is a shareholder holding 100 or more unrestricted securities.

[294] NYSE Listed Company Manual Section 102.06.

[295] NYSE American Company Guide Section 102(a).

[296] NASDAQ Rule 5505(a)(2)&(3).

[298] UK Listing Rule 14.2.2(3).

[299] SGX Response Paper, paragraph 2.37 on page 12.

	US (NYSE and NASDAQ)	UK[289] (Main Market of LSE)	Singapore [290] (Main Board of SGX)
	million publicly-held shares [297] • No specified percentage of public float for all market segment		
V.	**SPAC Share Issue Price**		
	US$4[300]; typically SPACs have a unit issue price of US$10.	Not specified.	S$5[301]
VI.	**SPAC Fund Raising Size**		
	No minimum fund raising size, but require a SPAC to have a minimum market capitalisation of: *NYSE American and NASDAQ Capital Market:* • US$50 million[302] (HK$388 million)	>= £100 million (HK$1.1 billion) in terms of aggregate gross cash proceeds raised[305]	No minimum fund raising size, but require a SPAC to have a minimum market capitalisation of S$150 million[306] (HK$869 million)

[297] NASDAQ Rule 5405(a)(2)&(3).

[300] NASDAQ Rule 5405(a)(1); NASDAQ Rule 5505(a)(1)(A); and NYSE Listed Company Manual Section 102.06. For NYSE American, a minimum issue price US$2 is required (NYSE American Company Guide Section 102(b)).

[301] SGX Response Paper, paragraph 2.41 on page 13.

[302] NYSE American Company Guide Section 101(c); and NASDAQ Rule 5505(b)(2)(A).

[305] Excluding any funds the SPAC Promoters may have provided. A condition from exemption from the presumption of suspension (See (C)-III "Trading Halts and Suspensions" in this table).

[306] SGX Response Paper, paragraph 2.33 on page 11.

	US (NYSE and NASDAQ)	UK[289] (Main Market of LSE)	Singapore [290] (Main Board of SGX)
	NASDAQ Global Market: • US$75 million(HK$583 million)[303] *NYSE:* • US$100 million[304](HK$776 million)		
VII.	**Warrants**		
	• For NYSE, initial listing requirements for warrants must be met[307] • Exercise Price typically US$11.5 per share; • Typically exercisable on the later of the completion of a De-SPAC Transaction or 12 months from the date of offering; and • Typically expire on the earlier of the fifth anniversary from completion of a De-SPAC Transaction; or the date of redemption by SPACs	No rule requirements on particular terms of SPAC Warrants but terms of SPAC Warrants should be disclosed in the SPAC's prospectus[308]	• Must meet existing requirements[309] • Exercise price >= the price of SPAC Share IPO issue price; and • Must not be exercisable prior to the completion of a De-SPAC Transaction; • Must not have an entitlement to liquidation distribution and redemption; and • Must expire on the earlier of: (a) the maximum tenure under the issuance terms as stated in the prospectus; or (b)

303 NASDAQ Rule 5405(b)(3)(A).

304 NYSE Listed Company Manual Section 102.06.

307 NYSE Listed Company Manual Section 102.06(f).

308 UK Consultation Paper, paragraph 4.26.

309 SGX Mainboard Rules, Chapter 8, Part VI.

	US (NYSE and NASDAQ)	UK[289] (Main Market of LSE)	Singapore [290] (Main Board of SGX)
			the maximum permitted time frame for completion of a De-SPAC Transaction.[310]
(B)	**SPAC PROMOTERS AND DIRECTORS**		
I.	**SPAC Promoters**		
	Suitability and Eligibility		
	For NYSE, SPAC Promoters' experience and/or track record is one of the factors in the assessment of the suitability of a SPAC for listing[311]	Not specified.	The suitability of a SPAC for listing includes: • Track record and repute of the founding shareholders; and • Experience and expertise of the management team[312]

[310] SGX Mainboard Rule 210(11)(j).

[311] NYSE Listed Company Manual 102.06 (f).

[312] SGX Response Paper, paragraph 4.5 on page 52.

	US (NYSE and NASDAQ)	UK[289] (Main Market of LSE)	Singapore [290] (Main Board of SGX)
	Minimum equity participation		
	Not specified.	Not specified.	2.5% to 3.5% of a SPAC's market capitalisation[313] at the time of listing held by SPAC Promoters and SPAC directors in aggregate
	Licensing / qualification requirements		
	Not specified.	Not specified.	Not specified.

[313] For a SPAC with a market capitalisation (a) from S$150 million to S$300 million; (b) S$300 million to S$500 million; and (c) more than S$500 million, the percentage of minimum equity participation would be 3.5%, 3% and 2.5%, respectively.

	US (NYSE and NASDAQ)	UK[289] (Main Market of LSE)	Singapore [290] (Main Board of SGX)
	Material Change of SPAC Promoters		
	Not specified.	Not specified.	• Require approval by a special resolution of independent shareholders[314], failing which a SPAC will be liquidated and delisted[315].
II.	**SPAC Directors**		
	Existing corporate governance independence requirements apply, including: • A majority of directors on the board must be independent[316]; and • All directors in a SPAC's audit committee must be independent[317]	A majority of directors in the SPAC's audit committee (including the chairman) must be independent[318]	A majority of directors in board committees (including the respective chairmen) must be independent[319]

[314] A material change includes a material change in (a) the founding shareholders' profile on which independent shareholders had primarily relied on in investing into the SPAC at IPO (e.g. a change in control of the founding shareholders as a result of a takeover, etc.); and (b) the resignation and/or replacement of the management team of the SPAC which are not due to natural cessation events such as death, incapacity, illness etc.

[315] SGX Response Paper, paragraph 4.5 on page 52.

[316] NASDAQ Rule 5605(b); NYSE Listed Company Manual Section 303A.01; and NYSE American Company Guide Section 802(a).

[317] NASDAQ IM-5605-4; NYSE Listed Company Manual Section 303A.07; and NYSE American Company Guide Seciton 803(B)(2)(a).

[318] DTR 7.1.1A and 7.1.2A of FCA Disclosure Guidance and Transparency Rules.

[319] SGX Mainboard Rule 210(11)(g).

	US (NYSE and NASDAQ)	UK[289] (Main Market of LSE)	Singapore [290] (Main Board of SGX)
(C)	**CONTINUING OBLIGATIONS**		
I.	**Funds Held in Trust**		
	90% of gross SPAC IPO proceeds to be held in an escrow account by an independent custodian, an "insured depository institution" [320] or in a separate account established by a registered broker or dealer[321]	• No specified minimum percentage; and • part of funds can be retained to fund the SPAC's operations [322]	90% of gross SPAC IPO proceeds to be: • held in a trust account by an independent escrow agent (a licensed financial institution approved by the Monetary Authority of Singapore); and • invested in cash or cash equivalent short dated securities of at least A-2 rating[323]

[320] As defined in Section 3(c)(2) of the Federal Deposit Insurance Act.

[321] NASDAQ IM-5101-2(a); NYSE Listed Company Manual Section 102.06; and NYSE American Company Guide Section 119(a).

[322] Such specified amount should be disclosed in the SPAC prospectus (UK Consultation Paper, paragraphs 4.11 and 4.12).

[323] SGX Response Paper, paragraphs 2.96 and 2.98, page 25.

	US (NYSE and NASDAQ)	UK[289] (Main Market of LSE)	Singapore [290] (Main Board of SGX)
II.	**Promoter Shares and Promoter Warrants**		
	Restriction on transfer / disposal		
	<u>Promoter Shares:</u> Subject to contractual transfer restrictions, and their resale must be registered under the Securities Act (unless otherwise exempted) <u>Promoter Warrants:</u> Not resaleable in the market; and typically restricted from transfer or disposal until 30 days after the completion of a De-SPAC Transaction	Not specified.	Shareholding (direct or indirect) held by founding shareholders, the management team, the controlling shareholders of the SPAC and their respective associates are restricted from transfer / disposal from the date of listing until the completion of a De-SPAC Transaction[324]

[324] SGX Response Paper, paragraph 2.147 on page 37.

	US (NYSE and NASDAQ)	UK[289] (Main Market of LSE)	Singapore [290] (Main Board of SGX)
III.	**Trading Halts and Suspensions**		
	Apply suspension /trading halt policy if a SPAC is unable to maintain confidentiality with regards to business negotiations[325]	A "rebuttable presumption" of suspension (see paragraph 245 of the main paper) does not apply upon De-SPAC Announcement if a SPAC meets certain criteria with respect to: • fund raising size (see (A)-VI "SPAC Fund Raising Size" above); • De-SPAC Transaction Deadline (See (E)-I "Deadlines" below); • providing clear disclosure of the structure and arrangements of the SPAC; • shareholder approval for a De-SPAC Transaction (See (D)-VI "Shareholder Vote on De-SPAC Transactions" below); and • redemption option for SPAC shareholders (See (D)-IX "Share Redemptions" below) [326]	Apply suspension /trading halt policy if a SPAC is unable to maintain confidentiality with regards to business negotiations[327]

[325] NYSE Listed Company Manual Section 202.06; and NASDAQ IM-5250-1.

[326] UK Listing Rule 5.6.18AG.

[327] SGX Mainboard Rule 1303.

	US (NYSE and NASDAQ)	UK[289] (Main Market of LSE)	Singapore [290] (Main Board of SGX)
(D)	**DE-SPAC TRANSACTION REQUIREMENTS**		
I.	**Application of New Listing Requirements**		
	Initial listing requirement applicable for a Successor Company		
	NYSE: Must meet minimum share price, market capitalisation and shares in public hands requirements[328] Apply full initial listing requirements if determined to be a "back door listing"[329] *NASDAQ:* Must meet full initial listing requirements applicable to market segments	Must meet initial listing requirements applicable to the listing category (premium or standard[330])	Must meet initial listing requirements[331]

[328] Immediately upon consummation of a De-SPAC Transaction, the Successor Company must have: (i) a price per share of at least US$4.00 (HK$31); (ii) a global market capitalisation of at least US$150,000,000 (HK$1.165 billion); (iii) an aggregate market value of publicly-held shares of at least US$40,000,000 (HK$311 million); and meet (iv) the requirements with respect to shareholders and publicly-held shares for companies listing in connection with an initial public offering (NYSE Listed Company Manual Section 802.01B, "Criteria for Acquisition Companies").

[329] NYSE Listed Company Manual Section 802.01B, "Criteria for Acquisition Companies"; and Section 703.08(E).

[330] Depending on which market in which a Successor Company is going to list upon the completion of a De-SPAC Transaction.

[331] Chapter 2 of SGX Mainboard Rules (including the quantitative admission criterion, public spread and distribution requirements, and qualitative requirements such as the character and integrity of directors, executive officers and controlling shareholders).

	US (NYSE and NASDAQ)	UK[289] (Main Market of LSE)	Singapore [290] (Main Board of SGX)
	Due Diligence and documentary requirements		
	Comparable to IPO requirements		
	Appointment of IPO Sponsor		
	Not required (no equivalent of "IPO Sponsor regime" in US)	Required if a Successor Company is listed under the premium listing category	Appointment of a financial adviser (i.e. an accredited issue manager equivalent to an IPO Sponsor) is required
II.	**Eligibility of De-SPAC Targets**		
	No restrictions imposed on the types of De-SPAC Targets, so long as new listing requirements described above are met	No restrictions imposed on the types of De-SPAC Targets, so long as new listing requirements described above are met	Expressly contemplate De-SPAC Transactions involving life science companies and mineral, oil and gas companies[332]

[332] SGX Consultation Paper Question 15(b).

	US (NYSE and NASDAQ)	UK[289] (Main Market of LSE)	Singapore [290] (Main Board of SGX)
III.	**Size of De-SPAC Target**		
	Fair market value >=80% of the proceeds held in trust[333]	Not specified	Fair market value >=80% of the proceeds held in trust[334]
IV.	**Independent Third Party Investment**		
	Not specified	Not specified	Not specified; but require an independent financial adviser to be appointed in the absence of a PIPE investment[335]

[333] NYSE Listed Company Manual Section 102.06; NYSE American Company Guide Section 119(b); and NASDAQ IM-5101-2(b).

[334] SGX Response Paper, paragraph 2.118, page 30.

[335] SGX Response Paper, paragraphs 2.123 and 2.125, page 30 and 31.

	US (NYSE and NASDAQ)	UK[289] (Main Market of LSE)	Singapore [290] (Main Board of SGX)
V.	**Dilution Cap**		
	• No specific requirements for dilution or Promoter Shares • Promoter Shares normally represent 20% of SPAC's outstanding shares at IPO closing	Dilution effects on ordinary shareholders from potential redemptions of SPAC Shares should be disclosed[336]	• Dilution cap of no more than 50% on a SPAC's post-invitation issued share capital (including Promoter Shares) with respect to the conversion of warrants issued by the SPAC in connection with the SPAC IPO[337] • Promoter Shares capped at 20% of the SPAC's total issued shares at listing[338]

[336] UK Conclusions Paper, paragraphs 2.44 and 2.5.

[337] SGX Response Paper paragraph 3.32, page 50.

[338] SGX Response Paper, paragraphs 4.16 and 4.17, page 54 and 55.

	US (NYSE and NASDAQ)	UK[289] (Main Market of LSE)	Singapore [290] (Main Board of SGX)
VI.	**Shareholder vote on De-SPAC Transactions**		
	• Mandatory if a De-SPAC Transaction involves one of the following share issuances: 1. issuance of more than 20% of issued share capital[339]; 2. issuance resulting on an increase in outstanding common shares or voting power of 5% or more, if any director, officer or substantial shareholder has individually 5%, or collectively, 10% interest or more in the target[340]; or 3. issuance resulting in a change of control of the issuer [341] • SPAC Promoters are generally allowed to vote	• Requires approval by a majority of public shareholders, excluding a SPAC's founding shareholder(s), SPAC sponsor(s) or directors[342]	• Requires approval by a majority of a SPAC's shareholders (including SPAC's founding shareholders, management team and their respective associates in respect of their holdings of SPAC Shares)[343]

[339] NASDAQ Rule 5635(a)(1); NYSE Listed Company Manual Section 312.03(c); and NYSE American Company Guide Section 712(b).
[340] NASDAQ Rule 5635(a)(2); NYSE Listed Company Manual Section 312.03(b)(ii); and NYSE American Company Guide Section 712(a).
[341] NASDAQ Rule 5635(b); NYSE Listed Company Manual Section 312.03(d); and NYSE American Company Guide Section 713(b).
[342] UK Consultation Paper, paragraphs 4.18 to 4.21.
[343] SGX Response Paper, paragraph 2.168, page 42.

	US (NYSE and NASDAQ)	UK[289] (Main Market of LSE)	Singapore [290] (Main Board of SGX)
VII.	**De-SPAC Transactions Involving Connected Targets**		
	• Interest in De-SPAC Targets held by the SPAC Promoters, directors, officers or their affiliates should be disclosed in the prospectus and Proxy Statement [344] • If related party transaction rules apply, SPAC audit committee or independent directors should conduct a review and oversight[345]	• A "fair and reasonable" statement made by the board with an advice of an qualified and independent adviser should be published well ahead of the voting of a De-SPAC Transaction, where any of SPAC directors have conflict of interests in De-SPAC Target (or its subsidiary)[346]	• Existing requirements in relation to interested person transaction apply[347]. • Potential conflict of interests of SPAC Promoters, SPAC directors, and their respective associates, as well as the measures to mitigate such conflicts, should be disclosed in the listing document and circular[348].

[344] Division of Corporate Finance, SEC, CF Disclosure Guidance: Topic No. 11 "Special Purpose Acuiqistion Companies", 22 December 2020.

[345] NASDAQ Rule 5630; NYSE Listed Company Manual Section 314; and NYSE American Company Guide Section 120.

[346] UK Consultation Paper, paragraphs 2.33 to 2.38.

[347] SGX Mainboard Rules, Chapter 9.

[348] SGX Mainboard Rule 625(13); and SGX Response Paper, Practice Note 6.4 "Requirements for Special Purpose Acquisition Companies", paragraph 7.1(n), on page 83..

	US (NYSE and NASDAQ)	UK[289] (Main Market of LSE)	Singapore [290] (Main Board of SGX)
VIII.	**Alignment of Voting with Redemption**		
	• Not required • If a general meeting is held, public shareholders[349] voting against the De-SPAC Transaction must be entitled to share redemption[350] • If a general meeting is not held, all shareholders must be entitled to share redemption[351] • In practice, SPAC Promoters are contractually refrained from exercising their redemption rights (whether in respect of Promoter Shares or SPAC Shares)	• Not required • Public shareholders[352] voting for a De-SPAC Transaction can redeem SPAC Shares	• Not required • All independent shareholders are allowed to redeem[353].

[349] Excluding SPACs' officers and directors, SPAC sponsors, the founding shareholders, and their respective family members and affiliates, or the beneficial holder of more than 10% of the total outstanding shares.

[350] NASDAQ IM-5101-2(d); NYSE Listed Company Manual Section 102.06(b); and NYSE American Company Guide Section 119(d).

[351] NASDAQ IM-5101-2(e); NYSE Listed Company Manual Section 102.06(c); and NYSE American Company Guide Section 119(e).

[352] See (D)-VI "Shareholder vote on De-SPAC Transactions" for the meaning of a "public shareholder" in this table.

[353] SGX Response Paper, paragraphs 3.16 and 3.17, page 46.

	US (NYSE and NASDAQ)	UK[289] (Main Market of LSE)	Singapore [290] (Main Board of SGX)
IX.	**Share Redemptions**		
	Amount entitled		
	• A pro rata share of the aggregate amount held in trust (net of taxes payable and amounts distributed to management for working capital purposes)[354] • A redemption limit of no lower than 10% of the SPAC Shares sold at IPO permitted[355]	A fixed amount or fixed pro rata share of the ring-fenced cash proceeds, less a SPAC's pre-agreed running costs[356]	• A pro rata portion of the amount held in trust at the time of the De-SPAC Transaction (net of interest and income earned thereon which may be applied for administrative expenses in connection with the SPAC IPO, working capital expenses and related expenses for identifying and completing a De-SPAC Transaction)[357] • Drawdown of escrowed funds in exceptional circumstances is subject to the respective approvals by a special resolution of all SPAC shareholders and the SGX[358] • A redemption limit of no lower than 10%

[354] NASDAQ IM-5101-2(d)&(e); NYSE Listed Company Manual Section 102.06(b)&(c); and NYSE American Company Guide Section 119(d)&(e).

[355] NYSE Listed Company Manual Section 102.06(b); and NYSE American Company Guide Section 119(d).

[356] UK Conclusions Paper, paragraphs 2.39, 2.40 and 2.43.

[357] SGX Response Paper, paragraph 2.104, page 26.

[358] SGX Response Paper, paragraph 2.102, page 26.

	US (NYSE and NASDAQ)	UK[289] (Main Market of LSE)	Singapore [290] (Main Board of SGX)
			of the SPAC's issued shares at listing permitted [359]
X.	**Forward looking information**		
	There is uncertainty around whether a "safe harbour" would be available for SPACs to include forward-looking information in SEC filings for a De-SPAC Transaction[360]	• Must meet existing requirements set out in Prospectus Regulation[361]; and • be accompanied by a statement that the forecast has been properly compiled on the basis of assumptions stated and that the basis of accounting is consistent with the accounting policies of the listed issuer[362]	Must comply with statutory obligations and existing listing rule requirements[363], which require the following disclosures to be included in a De-SPAC Transaction circular: • a report from a financial adviser confirming that it is satisfied that the forecast has been stated after due and careful enquiry; • details of the principal assumptions (including commercial assumptions) upon which the forecast is based; and • confirmation from the Successor Company's auditors that they have reviewed the bases and assumptions,

[359] SGX Response Paper, paragraph 3.18, page 46.

[360] SEC, "SPACs, IPOs and Liability Risk under the Securities Laws", 8 April 2021 by John Coates (Acting Director, Division of Corporation Finance).

[361] Annex 1 to the UK version of Regulation number 2019/980 of the European Commission.

[362] UK Listing Rule 13.5.32R(2).

[363] Paragraphs 13 to 17 of Part 6 of the Fifth Schedule of the Securities and Futures (Offers of Investments) (Securities and Securities-based Derivatives Contracts) Regulations 2018; and SGX Mainboard Rule 1012 and Rule 1013.

	US (NYSE and NASDAQ)	UK[289] (Main Market of LSE)	Singapore [290] (Main Board of SGX)
			accounting policies and calculations for the forecast.
XI.	**Open Market in Successor Company's shares**		
	NYSE: • >= 400 "round lot" holders and 1.1 million publicly-held shares[364] *NYSE American / NASDAQ Capital and Global Market:* • Same requirements for listing of SPACs set out in (A)-IV "Open Market Requirements - Shareholder spread" above • No specified percentage of public float for all market segments	• 25% public float requirement[365]; • No minimum shareholder distribution requirement	• Public float between 12% and 25% (depending on issuer's market capitalisation); and • >=500 shareholders [366]

[364] NYSE Listed Company Manual Section 802.01; and Section 102.01A.

[365] UK Listing Rules 6.14 or 14.2.2(3).

[366] SGX Mainboard Rule 210(1)(a).

	US (NYSE and NASDAQ)	UK[289] (Main Market of LSE)	Singapore [290] (Main Board of SGX)
XII.	**Lock-up Periods**		
	Not a rule requirement; In practice, a lock-up period of 12 months upon completion of the De-SPAC Transaction[367]	Not specified	Depending on which quantitative criteria a Successor Company is able to meet[368], a lock-up period of at least six months and up to 12 months upon completion of the De-SPAC Transaction[369]
(E)	**DE-LISTING CONDITIONS**		
I.	**Deadlines**		
	De-SPAC Announcement Deadline		
	Not specified		

[367] This is a contractual restriction usually imposed upon SPAC Promoters and the controlling shareholder of a Successor Company.

[368] SGX Mainboard Rule 229 and Rule 210(11)(h).

[369] A SPAC's founding shareholders and management; the controlling shareholder of and the executive directors with an interest of 5% of more in the Successor Company, as well as their respective affiliates are subject to the lock-up period.

	US (NYSE and NASDAQ)	UK[289] (Main Market of LSE)	Singapore [290] (Main Board of SGX)
	De-SPAC Transaction Deadline		
	• Within 36 months from IPO without further extension[370] • Typically, SPACs voluntarily set 24 months	• Within 24 months from IPO, subject to an extension of up to 12 months to be approved by public shareholders[371] • Can further be extended for 6 months (without shareholder approval) under limited circumstances[372]	• Within 24 months from IPO, subject to an extension of up to 12 months to be approved by SPAC shareholders[373] with a special resolution and SGX[374] • If a binding agreement in respect of a De-SPAC Transaction has been entered into by the end of the 24-month period, shareholder approval is not required for time extension

[370] NASDAQ IM-5101-2(b); NYSE Listed Company Manual Section 102.06(e); and NYSE American Company Guide Section 119(b).

[371] UK Consultation Paper, paragraph 4.15. See (D)-VI "Shareholder vote on De-SPAC Transactions" in this table for the meaning of a "public shareholder".

[372] For example, where the shareholder meeting for a De-SPAC Transaction has been convened or the shareholder approval has been obtained and more time is needed to finalise the De-SPAC Transaction. Such extension must be notified to the market before the end of 24 months or 36 months (if extended).

[373] A SPAC's founding shareholders, its management team and their respective associates are allowed to vote on the time extension, based on their respective shareholding in the SPAC (excluding holdings of the Promoter Shares).

[374] SGX Response Paper, paragraphs 2.76 and 2.78, page 21.

	US (NYSE and NASDAQ)	UK[289] (Main Market of LSE)	Singapore [290] (Main Board of SGX)
II.	**Liquidation and De-listing**		
	De-listing and/or liquidation in the event of failure to meet the De-SPAC Transaction Deadline		
	• De-listing: Expressly required by NYSE and NASDAQ • Liquidation: Expressly required by NYSE	• De-listing: Not specified • Liquidation: Expressly required	• De-listing and liquidation: Expressly required
	Entitlement to liquidation distribution		
	NYSE expressly excludes SPAC Promoters from participating in the distribution in respect of their SPAC Shares: • held prior to the IPO; or • purchased in any private placement in conjunction with the IPO, including the SPAC Shares underlying any Promoter Warrants[375]	Public shareholders[376] will receive gross IPO proceeds, excluding proceeds to fund pre-agreed SPAC's running costs[377]	SPAC shareholders[378] must receive the amount held in trust at the time of the liquidation distribution, net of taxes payable and direct expenses related to the liquidation distribution and inclusive of any interest and income accrued, on a pro rata basis[379]

[375] NYSE Listed Company Manual Section 102.06(e) & (f).

[376] See (D)-VI "Shareholder vote on De-SPAC Transactions" for the meaning of a "public shareholder" in this table.

[377] UK Consultation Paper, paragraph 4.16.

[378] A SPAC's founding shareholders, its management team and their respective associates in respect of all equity securities owned or acquired prior to or pursuant to the SPAC IPO should be prohibited from participating in the liquidation distribution.

[379] SGX Mainboard Rule 210(11)(n)(ii).

DRAFT RULE AMENDMENTS

(A) SUMMARY

Set out below is a summary table of the proposal in this paper and the corresponding Listing Rules to implement them:

PROPOSALS		DRAFT RULES
(A)	**CONDITIONS FOR LISTING**	
I.	**Investor Suitability**	
	Restriction to Professional Investors only prior to a De-SPAC Transaction	18B.03, 18B.62
II.	**Arrangements to ensure marketing to and trading by Professional Investors only**	
	SPAC Requirements	18B.03
	Exchange Participant Requirements for Secondary Trading	Corresponding amendments will be made to the Rules and Regulations of the Exchange and the Options Trading Rules to implement the proposals
	Stock Short Name Marker	The Exchange will publish guidance on the stock short name marker to be assigned to the securities of SPAC
III.	**Trading Arrangements**	
	Separate trading of SPAC Warrants and SPAC Shares from date of initial offering	18B.06
IV.	**Open Market Requirements**	
	Distribution of holders	18B.05
	Consequential exemptions due to restricted marketing of SPAC's initial offering	18B.04
V.	**SPAC Share Issue Price**	18B.07
VI.	**SPAC Fund Raising Size**	18B.08
VII.	**Warrants**	18B.09, 18B.10(2) and (3), 18B.14(2),

PROPOSALS	DRAFT RULES
	18B.27
(B) SPAC PROMOTERS AND SPAC DIRECTORS	
I. SPAC Promoters	
Character, experience and integrity of a SPAC Promoter	18B.14(3), 18B.15, 18B.16
Material change in SPAC Promoters	18B.29 to 18B.31
II. SPAC Directors	18B.17
(C) CONTINUING OBLIGATIONS	
I. Funds Held in Trust	18B.18 to 18B.21
II. Promoter Shares and Promoter Warrants	
Restrictions on issue and transfer of Promoter Shares and Promoter Warrants	18B.22 to 18B.25
Restrictions on dealing in SPAC securities	18B.32
III. Trading Halts and Suspensions	All existing requirements will apply
(D) DE-SPAC TRANSACTION REQUIREMENTS	
I. Application of New Listing Requirements	
Suitability and Eligibility Requirements, Due Diligence Requirements	18B.34
IPO Sponsor Appointment	18B.35
Documentary Requirements (Announcement)	18B.41 to 18B.45
Documentary Requirements (Listing document)	18B.46 to 18B.49
Listing Approval	18B.33
Initial listing fee	18B.34
II. Eligibility of De-SPAC Targets	18B.36

PROPOSALS	DRAFT RULES
III. Size of De-SPAC Target	18B.37
IV. Independent Third Party Investment	18B.38 to 18B.40
V. Dilution Cap	18B.26, 18B.10(1), 18B.11, 18B.12
VI. Shareholder Vote on De-SPAC Transactions	18B.50 to 18B.53
VII. De-SPAC Transactions Involving Connected De-SPAC Targets	
Definition of a "connected person"	18B.54
Existing connected transaction requirements	All existing requirements will apply
Additional requirements	18B.55
VIII. Alignment of Voting with Redemption	18B.58
IX. Share Redemptions	
Election of Redemption	18B.56, 18B.60
Redemption procedures	18B.57 to 18B.59, 18B.61
X. Forward Looking Information	All existing requirements will apply
XI. Open Market in Successor Company's Shares	18B.63
XII. Lock-up Periods	
SPAC Promoter lock-up	18B.28, 18B.64
Controlling shareholder lock-up	18B.65
(E) APPLICATION OF THE TAKEOVERS CODE	
I. Prior to De-SPAC Transaction Completion	The Takeovers Executive proposes to issue a new Practice Note to provide further guidance (including the information
II. The De-SPAC Transaction	

PROPOSALS	DRAFT RULES
III. Successor Company	required in an application for a waiver of the application of Rule 26.1 of the Takeovers Code) to market practitioners.
(F) DE-LISTING CONDITIONS	
I. Deadlines	
De-SPAC Announcement deadline and De-SPAC Transaction deadline	18B.66, 18B.67
Consequences of failure to meet deadlines	18B.70, 18B.71
De-SPAC deadline extension request	18B.68, 18B.69
Redemption opportunity	18B.56(3)
II. Liquidation and De-Listing	18B.70, 18B.71
(G) CONSEQUENTIAL MODIFICATIONS AND EXEMPTIONS	
18B.73 to 18B.75	

(B) DRAFT RULE AMENDMENT TEXT

Chapter 1

GENERAL

INTERPRETATION

…

1.01 Throughout these Rules, the following terms, except where the context otherwise requires, have the following meanings:

…

"special purpose acquisition company" or "SPAC"	an issuer with, or seeking, a listing that has no operating business and is established for the sole purpose of conducting a transaction in respect of a business combination with a target, within a pre-defined time period, to achieve the listing of the target
"UT Code"	Code on Unit Trusts and Mutual Funds administered by the Commission as set out in Section II of the Commission's Handbook for Unit Trusts and Mutual Funds, Investment-Linked Assurance Schemes and Unlisted Structured Investment Products

…

Chapter 18B

EQUITY SECURITIES

SPECIAL PURPOSE ACQUISITION COMPANIES

Scope

The Exchange Listing Rules apply as much to SPACs and Successor Companies with, or seeking, a listing as they do to other issuers, subject to the additional requirements, modifications or exceptions set out or referred to in this chapter.

SPACs are encouraged to contact the Exchange if they envisage any difficulties in complying fully with the applicable requirements set out in this Chapter.

Definitions

18B.01 In this Chapter, the following definitions apply:

"De-SPAC Target"	the target of a De-SPAC Transaction
"De-SPAC Transaction"	a business combination between a SPAC and a De-SPAC Target that results in the listing of a Successor Company
"Individual Professional Investors"	persons falling under paragraph (j) of the definition of "professional investor" in section 1 of Part 1 of Schedule 1 to the SFO
"Institutional Professional Investors"	persons falling under paragraphs (a) to (i) of the definition of "professional investor" in section 1 of Part 1 of Schedule 1 to the SFO
"Professional Investor"	an Institutional Professional Investor or an Individual Professional Investor
"Promoter Share"	a share of a separate class to SPAC Shares issued by a SPAC exclusively to a SPAC Promoter at nominal consideration as a financial incentive to establish and manage the SPAC

"Promoter Warrant"	a warrant of a separate class to SPAC Warrants issued by a SPAC exclusively to a SPAC Promoter
"SPAC Director"	a director of a SPAC
"SPAC Promoter"	a person who establishes and manages a SPAC
"SPAC Share"	a share of a SPAC that is not a Promoter Share
"SPAC Warrant"	a warrant issued by a SPAC that is not a Promoter Warrant
"Successor Company"	the listed issuer resulting from the completion of a De-SPAC Transaction
"warrant"	a right, issued or granted by a SPAC, to purchase shares and includes SPAC Warrants and Promoter Warrants

CONDITIONS FOR LISTING

Basic Conditions

18B.02 Rules 8.05, 8.05A, 8.05B and 8.05C do not apply to a SPAC.

Restrictions on Marketing to and Trading by the Public

18B.03 The Exchange must be satisfied that adequate arrangements have been made to ensure that the securities of a SPAC will not be marketed to or traded by the public in Hong Kong (without prohibiting marketing to or trading by Professional Investors). For this reason a SPAC will be required to:

(1) have a board lot size and subscription size of a value of at least HK$1,000,000 for its SPAC Shares;

(2) demonstrate to the Exchange that the intermediaries involved in selling securities for and on its behalf, as part of their "know your client" procedures under the Code of Conduct, satisfy themselves that each placee is a Professional Investor; and

(3) demonstrate to the Exchange that all other aspects of the structure of any SPAC securities offering preclude access by the public (other than Professional Investors).

Note: For the purpose of compliance with this rule, the initial offering of a SPAC must not involve a public subscription tranche of securities.

18B.04 Rules 8.07, 8.13 (save that a SPAC's securities must be freely transferable between Professional Investors only), 8.23 and Practice Note 18 do not apply to the initial offering of a SPAC.

Open Market Requirements

18B.05 Rule 8.08(2) is modified to require that, for each class of securities new to listing by a SPAC, at the time of listing, there must be an adequate spread of holders of the securities to be listed which must, in all cases, be at least 75 Professional Investors, of whom at least 30 must be Institutional Professional Investors and such Institutional Professional Investors must hold at least 75% of the securities to be listed.

Note: A SPAC must meet all other open market requirements applicable to a new listing, including the requirement of rule 8.08(1) that at least 25%

of its total number of issued shares (and 25% of its total number of issued warrants) are at all times held by the public and rule 8.08(3) that not more than 50% of the securities in public hands at the time of listing can be beneficially owned by the three largest public shareholders.

Trading Arrangements

18B.06 SPACs must apply to list SPAC Shares and SPAC Warrants that trade separately from the date of initial listing onwards.

Issue Price

18B.07 SPAC Shares for which a listing is sought must have an issue price of at least HK$10 each.

Fund Raising Size

18B.08 At the time of listing, the gross funds raised by a SPAC from its initial offering must be at least HK$1,000,000,000.

Warrants

18B.09 All warrants must, prior to the issue or grant thereof by a SPAC, be approved by:

(1) the Exchange; and

(2) in the case of warrants proposed to be issued or granted by a SPAC after listing, by the shareholders in general meeting (unless they are issued by the SPAC Directors under the authority of a general mandate granted to them by shareholders in accordance with rule 13.36(2)).

18B.10 Each warrant issued or granted by a SPAC must:

(1) entitle the holder to not more than a third of a share of the SPAC or of the Successor Company;

(2) have an exercise period that commences after the completion of a De-SPAC Transaction; and

(3) expire not less than one and not more than five years from the date of completion of a De-SPAC Transaction, and must not be convertible into further rights to subscribe for securities which expire less than one year or more than five years after the date of completion of a De-SPAC Transaction.

18B.11 The number of SPAC Shares that may be issued upon exercise of all outstanding warrants issued or granted by a SPAC must not, if all such rights were immediately exercised, whether or not such exercise is permissible, exceed 30% of the number of shares in issue at the time such warrants are issued.

18B.12 The number of SPAC Shares that may be issued upon exercise of all outstanding Promoter Warrants issued or granted by a SPAC must not, if all such rights were immediately exercised, whether or not such exercise is permissible, exceed 10% of the number shares in issue at the time such warrants are issued.

18B.13 Rule 15.02 does not apply to a SPAC.

CONTENTS OF LISTING DOCUMENTS

18B.14 In addition to the information set out in Appendix 1A, a SPAC must disclose in its listing document:-

(1) a prominent statement on the front cover of the listing document stating that the securities of a SPAC are only to be issued to, or traded by, Professional Investors, and that the listing document is to be distributed to Professional Investors only;

(2) the information required by rule 15.03 for all warrants issued or granted by the SPAC;

(3) the information referred to in rule 18B.15 on the SPAC Promoters as at the latest practicable date;

(4) full disclosure of the SPAC's structure;

(5) prominent disclosure of the major risk factors relating to investment in SPAC (including those relating to liquidity and volatility of its securities);

(6) its acquisition mandate and conditions (including its target business sector, types of asset, or geographic area for the purposes of undertaking a De-SPAC Transaction);

(7) its business strategy including its criteria for selecting a De-SPAC Target;

(8) a statement by the directors that the SPAC has not entered into a binding agreement with respect to a potential De-SPAC Transaction;

(9) terms of (a) the initial investment in the SPAC by; and (b) the benefits and/or rewards prior to or upon completion of the De-SPAC Transaction

that would be provided to, the SPAC Promoters, the SPAC Directors, the senior management and their close associates (including justification for any discounts to the initial investment, and value of the benefits and/or rewards, and commentary on the alignment of their interests with the interests of other shareholders);

(10) prominent disclosure on the impact of dilution to shareholders due to (a) there being less equity contribution from the SPAC Promoters in respect of the Promoter Shares and such other known dilutive factors or events; and (b) the exercise of the warrants and (c) any mitigating measures taken to minimise impact of dilution to shareholders; and

(11) voting, redemption and liquidation rights of SPAC shareholders including the basis of computation of the pro rata entitlement in the event of a redemption of shares and liquidation of the SPAC.

SPAC PROMOTERS AND SPAC DIRECTORS

SPAC Promoters

18B.15 At listing of the SPAC and on an ongoing basis for the lifetime of the SPAC , the Exchange must be satisfied as to the character, experience and integrity of a SPAC Promoter and that each is capable of meeting a standard of competence commensurate with their position. For the purpose of demonstrating the above, a SPAC must ensure that:

(1) at listing and on an ongoing basis, at least one of its SPAC Promoters is a firm that holds a Type 6 (advising on corporate finance) and/or a Type 9 (asset management) license issued by the Commission; and

(2) it provides the Exchange with information that the Exchange requests as specified on the Exchange's website and amended from time-to-time.

Note: The Exchange reserves the right to request that a SPAC provide further information regarding any proposed SPAC Promoter's character, experience and integrity for the purpose of rule 18B.15.

18B.16 At least one of the SPAC Promoters satisfying rule 18B.15(1) must be the beneficial holder of at least 10% of the Promoter Shares issued by the SPAC.

SPAC Directors

18B.17 In addition to meeting the requirements of these rules, 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.

CONTINUING OBLIGATIONS

Trust Account

18B.18 A SPAC must hold 100% of the gross proceeds of its initial offering (excluding proceeds raised from the issue of Promoter Shares and Promoter Warrants) in a ring-fenced trust account located in Hong Kong.

18B.19 The trust account referred to in rule 18B.18 must be operated by a trustee/custodian whose qualifications and obligations are consistent with the requirements of Part II, Chapter 4 of the UT Code.

18B.20 The proceeds referred to in rule 18B.18 must be held in the form of cash or cash equivalents.

Note: The Exchange considers short-term securities issued by governments with a minimum credit rating of (a) A-1 by Standard & Poor's Ratings Services; (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 as cash equivalents for the purpose of this rule.

18B.21 The monies held in the trust account referred to in rule 18B.18 (including any accrued interest on such funds) must not be released to any person other than to:

(1) meet redemption requests of the SPAC shareholders that have elected to redeem their SPAC Shares;

(2) complete a De-SPAC Transaction; or

(3) return funds to SPAC shareholders in accordance with rule18B.71.

Note: The expenses incurred by a SPAC before the De-SPAC Transaction must not be funded from the proceeds referred to in rule18B.18.

Promoter Shares and Promoter Warrants

18B.22 A SPAC must not apply to list Promoter Shares or Promoter Warrants.

18B.23 A SPAC Promoter who is allotted, issued or granted any Promoter Shares or Promoter Warrants must remain as the beneficial owner of the Promoter Shares or Promoter Warrants at listing of the SPAC and thereafter.

Note: The Exchange would consider there to be a change in beneficial owner if a SPAC Promoter enters into any arrangement for another person to be entitled to the economic interest in the Promoter Shares or to have control over the voting rights attached to them (through voting proxies or otherwise).

18B.24 A SPAC must only allot, issue or grant Promoter Shares or Promoter Warrants to a SPAC Promoter.

Note: A SPAC may allot, issue or grant these securities to a limited partnership, trust, private company or other vehicle to hold on behalf of a SPAC Promoter provided that such an arrangement does not result in a transfer of beneficial ownership of the securities to a person other than the SPAC Promoter.

18B.25 A SPAC must not certify the transfer of legal title to any Promoter Shares or Promoter Warrants to a person other than the SPAC Promoter to whom they were originally allotted, issued or granted.

Note: A SPAC may certify the transfer of legal title to these securities to a limited partnership, trust, private company or other vehicle to hold on behalf of the SPAC Promoter to which they were originally allotted, issued or granted provided that such an arrangement does not result in a transfer of beneficial ownership of the securities to a person other than that SPAC Promoter.

18B.26 (1) A SPAC must not allot, issue or grant any Promoter Shares to the SPAC Promoters that represent more than 20% of the total number of shares the SPAC has in issue as at the date of its listing.

Note:

The Exchange would be willing to accept requests from a SPAC to issue additional Promoter Shares to the SPAC Promoters after completion of the De-SPAC Transaction (the "earn-out portion") on the following conditions:

(a) the total number of Promoter Shares (including the earn-out portion) represents an amount not more than 30% of the total number of shares the SPAC has in issue as at the date of its listing;

(b) *the earn-out portion is linked to objective performance targets (such as a targeted level of revenue or profits, as reported in the Successor Company's audited financial statements for a designated financial period). To mitigate the risk of manipulation, these performance targets should not be determined by changes in the price or trading volume of the Successor Company's shares; and*

(c) *the SPAC shareholders having granted approval, at the general meeting called to approve the De-SPAC Transaction referred to in rule 18B.50, on the earn-out portion.*

Such earn-out portion shall be included in the resolution approving the De-SPAC Transaction. For the avoidance of doubt, the requirements in rule 18B.51 shall apply and the SPAC Promoter and their close associates must abstain from voting on the relevant resolutions.

(2) If the Promoter Shares are convertible into SPAC Shares, such conversion shall be on a one-for-one basis only.

(3) A SPAC must not grant any anti-dilution rights to a SPAC Promoter that would result in the SPAC Promoter holding more than the number of Promoter Shares that they held as at the date of the listing of the SPAC.

Note: If the SPAC conducts any sub-division or consolidation of shares, and as a result of which the number of Promoter Shares and SPAC Shares to which they are convertible into are required to be adjusted, the Exchange will accept a change in number of Promoter Shares if it is satisfied that any such adjustment is on a fair and reasonable basis, and will not result in the SPAC Promoter being entitled to a higher proportion of Promoter Shares or SPAC Shares than it was originally entitled to as at the date of the listing of the SPAC.

18B.27 Any Promoter Warrants must not be issued at less than fair value and must not contain terms that are more favourable to the SPAC Promoter than the terms of other warrants issued or granted by the SPAC.

Note: Examples of more favourable terms include: (a) an exemption from the forced exercise of the warrant if the shares of the Successor Company trades above a prescribed price; and (b) an option to exercise on a cashless basis; and (c) a warrant to share conversion ratio that is more favourable than that of the other warrants issued or granted by the SPAC.

18B.28 Promoter Warrants must not be exercisable during the period ending 12 months from the date of the completion of a De-SPAC Transaction.

Material Change in SPAC Promoters

18B.29 In the event of a material change in (1) the SPAC Promoter managing a SPAC or (2) the eligibility and/or suitability of a SPAC Promoter, such material change must be approved by a special resolution of the shareholders of the SPAC at a general meeting (on which the SPAC Promoter(s) and their respective close associates must abstain from voting).

Note 1: For the purpose of this rule, a material change includes but is not limited to the following circumstances:

(a) the departure or addition of a SPAC Promoter;

(b) a change in control of a SPAC Promoter;

(c) the revocation of a SPAC Promoter's license(s) issued by the Commission;

(d) breaches of laws, rules and regulations and any other matters bearing on the integrity and/or competence by a SPAC Promoter; and

(e) any other changes the Exchange may consider relevant to the eligibility and/or suitability of a SPAC Promoter.

Note 2: No written shareholders' approval will be accepted in lieu of holding a general meeting.

18B.30 Prior to the vote on a material change in SPAC Promoters referred to in rule 18B.29, shareholders of the SPAC (other than holders of Promoter Shares) shall be given the opportunity to elect to redeem their shares in accordance with rule 18B.56.

18B.31 If a SPAC fails to obtain the requisite shareholder approval as required under rule 18B.29, rules 18B.70 to 18B.72 in relation to liquidation and de-listing of a SPAC will apply.

Dealing restrictions

18B.32 The following persons and their close associates are prohibited from dealing in any of the SPAC's listed securities prior to the completion of a De-SPAC Transaction:

(1) A SPAC Promoter (including its directors and employees); and

(2) SPAC Directors and employees of the SPAC.

DE-SPAC TRANSACTION REQUIREMENTS

Application of New Listing Requirements

18B.33 The terms of a De-SPAC Transaction must include a condition that the transaction must not complete unless listing approval of the Successor Company's shares is granted by the Exchange.

18B.34 A Successor Company must meet all new listing requirements of these rules.

Note: This includes all the applicable requirements of Chapter 8 and the application procedures and requirements for a new listing set out in Chapter 9. The Successor Company will be required, among other things, to issue a listing document and pay the non-refundable initial listing fee. Chapters 8A, 18 and 18A would also apply where applicable.

18B.35 (1) A Successor Company must appoint at least one sponsor to assist it with the application for listing in accordance with Chapter 3A. The sponsor(s) must comply with the requirements as set out in Chapter 3A, including, among other things, the requirement that at least one sponsor must be independent of both the SPAC and the Successor Company referred to in Rule 3A.07.

(2) The sponsor(s) must be formally appointed at least two months prior to the date of the listing application of the Successor Company.

Note: If a De-SPAC Target has been considering an application for listing on its own at the same time as it is considering listing via a SPAC (i.e. it is taking a "dual-track" approach to listing), then the Exchange would take into account the due diligence performed by the sponsor of the De-SPAC Target during the whole dual-track process for the purpose of considering whether the minimum engagement period of two months has been satisfied. However, the sponsor must be formally engaged by the Successor Company for the purpose of its listing application.

Eligibility of De-SPAC Targets

18B.36 A SPAC must not seek to list an investment company subject to Chapter 21 through a De-SPAC Transaction.

18B.37 At the time of entry into the binding agreement for the De-SPAC Transaction, a De-SPAC Target must have fair market value representing at least 80% of the

funds raised by the SPAC from its initial offering (prior to any redemptions referred to in rule 18B.56).

Independent Third Party Investment

18B.38 The terms of a De-SPAC Transaction must include investment from independent third party investors.

18B.39 The funds raised from the independent third party investors referred to in rule 18B.38 must constitute at least 25% of the expected market capitalisation of a Successor Company.

Note: The Exchange may accept a lower percentage of between 15% and 25% in the case of Successor Companies with an expected market capitalisation at the time of listing of over HK$1,500,000,000.

18B.40 The third party investors referred to in rule 18B.38 must:

(1) meet independence requirements consistent with those that apply to an independent financial adviser under rule 13.84; and;

(2) include at least one asset management firm with assets under management of at least HK$1,000,000,000 or at least one fund with a fund size of at least HK$1,000,000,000. The investment made by this firm or fund 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.

Announcement of De-SPAC Transaction

18B.41 A SPAC must make an announcement of the terms of a De-SPAC Transaction as soon as possible after the finalisation of its terms.

18B.42 The content of the announcement referred to in rule 18B.41 must comply with rules 14.58 to 14.62, as applicable.

Note: The Exchange may issue guidance on the Exchange's website, from time-to-time, on requirements for the contents of the announcement referred to in rule 18B.41.

18B.43 A SPAC must submit the announcement referred to in rule 18B.41 to the Exchange prior to publication and must not publish it until the Exchange has no further comments on the announcement.

18B.44 A SPAC must state in the announcement referred to in rule 18B.41 when it expects the listing document for the De-SPAC Transaction to be issued.

18B.45 A SPAC must comply with all applicable rules regarding notifiable transactions and reverse takeovers, including rules 14.35 to 14.37, 14.54 to 14.57 and 14.57A.

Listing Document Requirements

18B.46 A SPAC must issue a listing document for the De-SPAC Transaction that complies with the requirements of these rules.

Note: This means the listing document must comply with the requirements of Chapter 11 including the requirements on profit forecasts of rules 11.16 to 11.19 and the requirements on RTO in rules 14.63 and 14.69.

18B.47 The listing document referred to in rule 18B.46 must not be issued until the Exchange has confirmed to the SPAC that it has no further comments on the document.

18B.48 The listing document issued for the De-SPAC Transaction must contain:

(1) all the information required for a new listing applicant by these rules;

(2) the information required by rules 14.63 and 14.69 for a reverse takeover;

(3) the dilution effect of the De-SPAC Transaction (whether resulting from the conversion or exercise of the Promoter Shares, Promoter Warrants and SPAC Warrants, or any other issue of securities as part of the De-SPAC Transaction) to the number and value of the holdings of non-redeeming SPAC shareholders; and

(4) how the SPAC proposes to provide liquidity in the trading of the SPAC's warrants following the listing of the Successor Company.

18B.49 A SPAC must despatch the listing document referred to in rule 18B.46 to SPAC shareholders at the same time as or before the SPAC gives notice of the general meeting to approve the De-SPAC Transaction.

Shareholder Vote

18B.50 A De-SPAC Transaction must be made conditional on approval by the SPAC's shareholders at a general meeting. Written shareholders' approval will not be accepted in lieu of holding a general meeting.

18B.51 Shareholders and their close associates must abstain from voting on the relevant resolution(s) at the general meeting referred to in rule 18B.50 if they

have a material interest in the transaction.

Note: A SPAC Promoter and their close associates must abstain from voting.

18B.52 If the De-SPAC Transaction results in a change of control, any outgoing controlling shareholder(s) of the SPAC and their close associates must not vote in favour of the relevant resolution(s) at the general meeting referred to in rule 18B.50.

18B.53 The terms of any third party investment must be included in the relevant resolution(s) that are the subject of the shareholders' vote at the general meeting referred to in rule 18B.50.

De-SPAC Transactions Involving Connected De-SPAC Targets

18B.54 The definition of "connected person" in rule 14A.07 with respect to a SPAC is modified to include a SPAC Promoter, a SPAC's trustee or custodian and a SPAC Director, and an associate of any of these parties.

Note: The connected transaction requirements of these rules apply to De-SPAC Transactions, as modified.

18B.55 A SPAC must comply with the applicable connected transaction requirements in Chapter 14A and, with respect to a De-SPAC Transaction which is a connected transaction under Chapter 14A, in addition, a SPAC must:

(a) demonstrate that minimal conflicts of interest exist in relation to the proposed transaction;

(b) support, with adequate reasons, its claim that the transaction would be on an arm's length basis; and

(c) in all cases, include an independent valuation of the transaction in the circular for approving the De-SPAC Transaction.

Note: Rule 18B.55 (a) and (b) may be evidenced, for example, by:

(i) demonstrating that the SPAC and/or its connected persons are not controlling shareholders of the De-SPAC Target; and

(ii) no cash consideration is paid to connected persons, and any consideration shares issued to the connected persons is subject to a lock-up period of 12 months.

SHARE REDEMPTIONS

18B.56 Prior to a general meeting to approve any of the following matters, a SPAC must provide its shareholders with the opportunity to elect to redeem all or part of their shareholding at the price at which they were issued in the SPAC's initial offering, plus a pro rata amount of any and all accrued interest on such amount, as held in the trust account referred to in rule 18B.18:

(1) a material change in the SPAC Promoter referred to in rule 18B.29;

(2) a De-SPAC Transaction as referred to in rule 18B.50; or

(3) extension of deadlines referred to in rule 18B.66 or 18B.67.

18B.57 A SPAC must provide a period for the elections referred to in rule 18B.56 starting on the date of the notice of the shareholder meeting to approve the relevant matters referred to in rule 18B.56 and ending on the date of that general meeting. The notice of the shareholder meeting should also inform shareholders that only SPAC Shares voted against the relevant matter referred to in rule 18B.56 can be redeemed.

18B.58 A SPAC must not accept elections for redemption referred to in rule 18B.56 other than the SPAC Shares voted against the relevant resolutions(s) at the general meeting and in the case of a shareholder who only voted part of their shareholding against a relevant resolution, only with respect to such number of shares.

Note: Any SPAC Shares voted in favour, abstaining or failing to vote on a relevant resolution could not be redeemed.

18B.59 The redemption and the return of funds to the redeeming SPAC shareholders must be completed:

(1) in the case of a shareholder vote referred to in rule 18B.56(2), within five business days following completion of the associated De-SPAC Transaction; and

(2) in the case of a shareholder vote referred to in rule 18B.56(1) or (3), within one month of the date of the relevant general meeting.

18B.60 A SPAC must not limit the amount of shares a shareholder (alone or together with their close associates) may redeem.

18B.61 A SPAC must not accept elections to redeem unless those elections are

accompanied by delivery of the relevant number of shares.

SUCCESSOR COMPANY

Open Market in Successor Company's Securities

18B.62 The restrictions on marketing to and trading by the public set out in rule 18B.03 would not apply to a Successor Company.

18B.63 The minimum number of 300 shareholders under Rule 8.08(2) is modified to 100 shareholders in respect of the listing of a Successor Company.

Note: A Successor Company must meet all other open market requirements applicable to a new listing, including the requirement of rule 8.08(1) that at least 25% of its total number of issued shares are at all times held by the public (subject to the Exchange's discretion to accept a lower percentage as provided for by rule 8.08(1)(d)) and rule 8.08(3) that not more than 50% of the securities in public hands at the time of listing can be beneficially owned by the three largest public shareholders.

Lock-Up Period

18B.64 A SPAC Promoter must not, during the period ending 12 months from the date of the completion of a De-SPAC Transaction, dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, securities of the Successor Company that are, as shown in the Successor Company's listing document, beneficially owned by the SPAC Promoter.

18B.65 The controlling shareholder of a Successor Company must comply with rule 10.07 on the disposal of its shareholdings (and holdings of other securities, if applicable) in the Successor Company, following its listing.

DE-LISTING CONDITIONS

Deadlines

18B.66 A SPAC must publish the De-SPAC announcement referred to in rule 18B.41 within 24 months of the date of its listing.

Note: A SPAC may submit a request to the Exchange for an extension of the deadline referred to in rule 18B.66.

18B.67 A SPAC must complete a De-SPAC Transaction within 36 months of the date of its listing.

Note: A SPAC may submit a request to the Exchange for an extension of the deadline referred to in rule 18B.67.

Deadline Extensions

18B.68 Any request to the Exchange for an extension of the deadlines referred to in rule 18B.66 or 18B.67 must include the grounds for the request and confirmation to the Exchange that the SPAC has received the approval of the extension by an ordinary resolution of its shareholders at a general meeting (on which the SPAC Promoters and their respective close associates must abstain from voting).

18B.69 The Exchange retains the discretion to approve or reject an extension request submitted under rule 18B.68.

Note: Any extension granted by the Exchange in response to a request submitted under this rule will be for a period of up to six months.

Liquidation and De-Listing

18B.70 The Exchange will immediately suspend the trading of a SPAC that (1) fails to meet the deadline (extended or otherwise) referred to in rule 18B.66 or 18B.67; or (2) fails to obtain the requisite approval in respect of a material change in a SPAC Promoter referred to in rule 18B.29 within one month of the material change.

18B.71 Following a suspension imposed on it under rule 18B.70, a SPAC must within one month of the suspension, return the funds it raised at its initial offering to all holders of SPAC Shares plus any and all accrued interest on such amount, as held in the trust account referred to in rule 18B.18, on a pro rata basis. As soon as practicable after such return of funds, the SPAC must voluntarily liquidate.

Note: The Exchange will automatically cancel the listing of a SPAC upon its liquidation.

18B.72 Upon its liquidation a SPAC must publish an announcement regarding its voluntary liquidation and cancellation of listing in accordance with rule 13.25(1).

EXCEPTIONS

18B.73 The following rules do not apply to a SPAC and its listing:

(1) rule 4.04(1) on the inclusion of a history of financial results in the accountant's report of a listing document produced by a new applicant;

(2) rules 6.01(3) and 13.24 on the carrying out, directly or indirectly, of a business with a sufficient level of operations and assets of sufficient value to support its operations to warrant the continued listing of an issuer's securities;

(3) rule 8.11 only to the extent that a SPAC is permitted to issue Promoter Shares at a nominal value to a SPAC Promoter that carry the right to vote at general meetings and may carry a special right to nominate and/or appoint persons to the board of a SPAC;

(4) rule 14.82 on the suitability for listing of cash companies; and

(5) rules 14.89 and 14.90 on the prohibition, in the period of 12 months from the date of listing, of any acquisition, disposal or other transaction or arrangement, or a series of acquisitions, disposals or other transactions or arrangements, that would result in a fundamental change in the principal business activities of the listed issuer as described in the listing document issued at the time of its application for listing.

18B.74 With regards to a sponsor's conduct of due diligence, Paragraph 17 of the Code of Conduct and Practice Note 21 of these rules should be complied with by a sponsor to the extent applicable.

18B.75 Rule 3A.02B on the submission of a listing application for or on behalf of a new applicant is modified to require that a listing application for SPAC must not be submitted less than one month after the date of the sponsor's formal appointment.

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