# Hong Kong Investment Funds Association

October 29, 2021

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

Dear Sir

**Re: Consultation Paper on Special Purpose Acquisition Companies (SPACs)**

On behalf of the Hong Kong Investment Funds Association, I wish to express our support to the proposals outlined in the captioned Paper. We believe that in general, the proposals have struck an appropriate balance.

We understand that "SPACs" is a segment that key stock markets are vying for; as it has been a key growth driver in the past few years.

However, experiences from overseas markets indicate that there are areas pertaining to investor protection that need to be deliberated more thoroughly. In view of the complexity of the structure, we believe that the proposal to restrict the subscription and trading of SPACs securities to Professional Investors is a prudent approach. After the system has been up and running for some time and retail investors have a better understanding of the risk profile of this asset class, the authorities can conduct a review to see whether this can be further opened up to a broader investor base.

But at inception, the focus should be on setting up a robust framework. As promoters play a pivotal role, we believe that the proposed approach to set a high entry bar is perfectly appropriate. With respect to the de-SPAC transactions, we are also in support of the proposal to apply all listing requirements to the successor company. This will ensure consistency in the standards and prevent regulatory arbitrage.

However, there are three areas that we would respectfully request the HKEx to consider:

- It is important to allow SPAC shares and warrants to be traded separately as different types of institutional investors have different needs and risk appetites. If the two have to be bundled, it will substantially reduce the investor pool; and potentially dampen liquidity.

- Voting should not be linked to the ability to redeem. This is important to give flexibility as there are different types of investors (e.g. there are some who are interested in the target companies, while others are only focusing on the mispricing), and the reasons for participation are different. Flexibility should be provided to allow entry and exit. By imposing this condition, the framework in effect "forces" shareholders to put in an "against" vote. We don't believe that any requirements should skew the behavior.

- The minimum requirement of "independent third party investment" should be lowered from 15-25% to 5-10% to allow flexibility - even to major global asset managers, the proposed threshold is deemed as very high.

In general, whilst some quarters may point out that the proposed standards are more stringent than other financial centers and thus reduce Hong Kong's competitiveness in attracting SPAC listings, we believe that competitiveness does not hinge on quantity, but quality. Ultimately, the paramount consideration should be investor interests. In view of the fact that there is heavy retail participation in Hong Kong, this is particularly important in any market innovation initiatives.

After the HKEx has finalized the framework and if there are areas that we can work together to come up with the detailed implementation rules, please don't hesitate to contact us. We are more than happy to enlist our members to share their experiences from other markets; and provide substantive inputs.

Should you have any questions, please do not hesitate to contact me on [redacted].

Yours faithfully,

[redacted]