

9 November 2021

The Stock Exchange of Hong Kong Limited  
8/F, Two Exchange Square  
8 Connaught Place  
Central  
Hong Kong

### Sent via email

Dear Sir or Madam,

## **AIMA response to The Stock Exchange of Hong Kong Limited's Consultation Paper on Special Purpose Acquisition Companies**

### **Introduction**

We welcome the proposed introduction of the new listing regime for special purpose acquisition companies ("SPAC") as set out in the consultation paper issued by The Stock Exchange of Hong Kong Limited ("HKEX") in September 2021 (the "Consultation Paper"). We are pleased to see the HKEX take this initiative which, we believe, will enhance Hong Kong's competitiveness as a global financial centre.

### **Our Response to the Consultation Paper**

While we agree that investor protection is at paramount importance, we are of the view that some of the proposed rules relating to investor protection may be too restrictive, and will make Hong Kong a less attractive choice for SPAC listing.

#### *1. Investor Suitability*

Whereas we would agree that SPAC offerings should be limited to Professional Investors, our view is that the proposed requirement that there be at least 75 Professional Investors, of which 30 must be institutional Professional Investors at paragraph 181 of the Consultation Paper is too rigid and onerous. Many of the investors from Hong Kong in overseas SPAC listings have been family offices and corporate Professional Investors rather than institutional Professional Investors, all of whom are highly sophisticated. We do not believe that the requirement for 30 institutional Professional Investors (as opposed to other types of Professional Investors) will

The Alternative Investment Management Association Ltd (Hong Kong Branch)

mean that more thorough investment due diligence will be carried out or will otherwise enhance the quality of the SPAC as an investment proposition.

## *2. SPAC Promoters Eligibility Requirements*

Under the current HKEX proposed regulatory framework, at least one SPAC Promoter must hold (a) a Type 6 (advising on corporate finance) and/or Type 9 (asset management) license issued by the SFC; and (b) at least 10% of the Promoter Shares. We agree that the SPAC Promoters must meet certain eligibility and suitability requirements given the key role played by the SPAC Promoters during the entire SPAC listing process. The requirement for a Type 6 or Type 9 license issued by the SFC will however prohibit foreign promoters from acting as SPAC promoters and for this reason we would propose that the HKEX permit equivalently licensed and regulated entities from other jurisdictions to act as SPAC Promoters in Hong Kong. This would greatly facilitate the promotion of Hong Kong as a SPAC jurisdiction for potential SPAC Promoters outside of Hong Kong.

## *3. Redemption Option and Shareholder Vote*

In the Consultation Paper, the HKEX proposed that only shareholders who vote against the relevant De-SPAC Transaction at a general meeting would be entitled to redeem their SPAC shares. This requirement is inconsistent with the SPAC listing regimes in other jurisdictions and unnecessarily restricts shareholder's discretion and strategic options during the De-SPAC process, thereby reducing Hong Kong's attractiveness for SPAC listing. It also fails to offer any additional protection of investors' interests.

This restriction overlooks the possibility that shareholders may vote against the De-SPAC Transaction for reasons other than concerns over the validity of or value in the De-SPAC Transaction. Equally a decision to vote in favour of the De-SPAC Transaction does not necessarily indicate conviction in the transaction. Prohibiting shareholders from redeeming in other circumstances would be counterproductive to the completion of the De-SPAC Transaction as it would make it more likely that shareholders would vote against the De-SPAC Transaction. The De-SPAC Transaction may therefore not occur because sufficient shareholders may not vote in favour of it.

We believe that allowing all SPAC shareholders to redeem their shares would increase the likelihood that shareholders would vote in favour of the De-SPAC Transaction and therefore increase the likelihood that the De-SPAC Transaction would complete successfully. Permitting the ability to redeem regardless of whether the relevant SPAC shareholder is in favour of the De-SPAC Transaction would increase the invertibility of the SPAC and likewise increase the investor base, both of which would have the effect of decreasing volatility of the equity of the pre-merger SPAC and making the market for the SPAC more viable.

## *4. Minimum Fund Raising Size*

Our view is that the proposed minimum fund raising size of HK\$1 billion is too high in light of the relative size of De-SPAC targets in Asia. The US exchanges do not set minimum size requirements for SPAC IPO fund raising. The HK\$1 billion requirement could present a hurdle for potential SPAC Promoters and exclude smaller buy-out targets. We would request that the HKEX consider lowering or removing the target fund raising size.

## *5. HKEX's approval of the issue of warrants*

Under the HKEX's proposed regulatory framework, SPAC warrants must be approved by the HKEX prior to issue or grant thereof. It would be helpful if HKEX could outline the proposed criteria for the approval of the issuance or granting of SPAC warrants. An alternative would be for the HKEX to issue guidance regarding the issuance or

granting of SPAC warrants so that SPAC Promoters understand the requirements at the outset and can ensure that the guidance is complied with.

## **Conclusion**

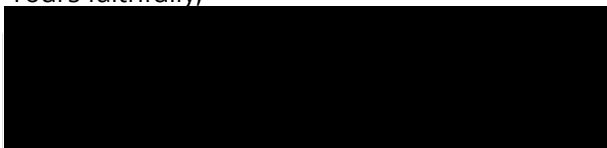
We understand the HKEX's objectives in setting a high threshold for the proposed SPAC listing regime and, in principle, we agree with the HKEX's focus on the protection of the interests of investors and the maintenance of Hong Kong's reputation as an international financial centre and world leading IPO venue.

Nevertheless, we are conscious that with the US having taken the lead in SPAC listing in 2020, followed by the UK and Singapore, Hong Kong's offering with respect to SPACs needs to be competitive with these other jurisdictions.

We would therefore urge the HKEX to take into account the foregoing comments.

We appreciate the HKEX consulting us on these matters and we look forward to reading the Consultation Conclusions.

Yours faithfully,

A large black rectangular redaction box covering the signature of Kher Sheng Lee.

Kher Sheng Lee  
Managing Director, Co-Head of APAC  
Deputy Global Head of Government Affairs