

Capital Markets | Funds & Investment Management

SGX Proposes to Permit Listing of SPACs in Singapore

Introduction

On 31 March 2021, the Singapore Exchange Limited ("**SGX**") released a consultation paper seeking comments on the proposed regulatory framework for the listing of Special Purpose Acquisition Companies ("**SPACs**") on the Mainboard of the Singapore Exchange Securities Trading Limited ("**SGX-ST Mainboard**"). The consultation closes on **28 April 2021**.

After weighing the benefits and risks of SPACs, SGX concludes in the consultation paper titled "[Proposed Listing Framework for Special Purpose Acquisition Companies](#)" ("**Consultation Paper**") that it is of the view that SPACs may generate benefits to capital markets participants and may be a viable alternative to traditional IPOs for fund raising in Singapore and the region.

The Consultation Paper seeks feedback on the key features of the proposed listing framework for SPACs to be listed on the SGX-ST Mainboard ("**SGX SPACs**") which aim to balance safeguarding investors' interests against certain concerns posed by the unique features of SPACs and the capital raising needs of the market.

This Update highlights the proposed admission criteria, listing requirements and key safeguards to protect the minority shareholders' interests of the SGX SPACs.

What is a SPAC?

SPACs, also known as "blank cheque companies", are companies with no commercial operations or revenue-generating businesses or assets. They are formed to raise capital through an initial public offering ("**IPO**") by listing on a securities exchange with the sole objective of acquiring another company for a business combination, also known as a de-SPAC transaction, so that the company emerging from the business combination continues as a listed company on the securities exchange ("**resulting issuer**").

Investors subscribe to the shares or units of a SPAC primarily on the basis of the expertise and proven track record of the founding shareholders, who are typically private equity sponsors ("**Sponsors**") and the management team of the SPAC. The Sponsors finance and establish the SPAC initially. A majority of the money raised in the SPAC's IPO is required to be placed in an escrow account and used for acquiring a company identified by the SPAC within a prescribed time frame. The acquisition of a target company for the business combination must be approved by the shareholders of the SPAC. If the SPAC fails to complete the business combination within the prescribed time frame, the SPAC is liquidated and the money in the escrow account will be returned to the shareholders.

Capital Markets | Funds & Investment Management

Proposed SGX SPACs

The proposed SGX SPAC framework in the Consultation Paper is drafted with reference to existing SPAC framework in other jurisdictions and "*strives to mitigate regulatory risks while balancing the need to attract market demand and maintain SGX's competitiveness as an exchange for SPACs listing*".

SGX proposes to provide for a primary listing of SPACs on the SGX-ST Mainboard but is seeking feedback on whether SPACs should be allowed to apply for a secondary listing on the SGX-ST Mainboard.

Proposed Admission Criteria for SGX SPACs

In addition to satisfying certain existing admission criteria for seeking a primary listing on the SGX-ST Mainboard, it is **proposed** that an SGX SPAC be subject to the following additional admission criteria:

1. **Minimum market capitalisation:** An SGX SPAC must meet a minimum S\$300 million market capitalisation, computed based on the IPO issue price and post-invitation issued share capital.
2. **Public float:** At least 25% of the SGX SPAC's total number of issued shares must be held by at least 500 public shareholders at time of the listing of the SPAC on SGX-ST.
3. **Minimum issue price:** Securities offered for the SGX SPAC IPO must have a minimum issue price of S\$10 per share or unit.
4. **Incorporated in Singapore:** An SGX SPAC seeking a primary listing on the SGX-ST Mainboard must be incorporated in Singapore and will not be permitted to adopt a dual class share structure for the IPO.
5. **Suitability assessment factors:** The proposed factors that SGX will consider when assessing the suitability of an SGX SPAC for listing are set out in Appendix 2 of the Consultation Paper (Proposed Practice Note 6.4). Such factors include the profile of the Sponsors (including their track record and repute), experience and expertise of the management team of the SPAC, nature and extent of the management team's compensation, equity ownership of the Sponsors and the management team in the SPAC and the alignment of interests between the Sponsors and the management team with the interests of other shareholders.

Proposed Measures Prior to And Related to Business Combination

As the proceeds raised from the public in an IPO of an SPAC is for the sole purpose of undertaking a business combination, the following requirements are **proposed** to ensure that the capital raised is used in accordance with its objective:

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- Permitted time frame for completion:** An SGX SPAC must complete a business combination within a maximum time frame of 36 months from the date of its listing. An extension of time may be permitted under exceptional circumstances and must be approved by a special resolution to be passed by the shareholders of the SPAC, excluding the Sponsors, the management team and their associates ("**Independent Shareholders**"). A concurrent application for an extension must be made to SGX.
- Holding IPO proceeds in escrow account:** At least 90% of the gross IPO proceeds must be placed in an escrow account pending the completion of a business combination. Requirements are proposed to ensure that the funds in the escrow account, interest earned and income derived from such funds cannot be drawn down prior to completion of the business combination, except for specified circumstances.
- Business combination must result in sizeable and identifiable core business:** The business combination to be undertaken by the SGX SPAC must comprise at least one principal core business with a fair market value forming at least 80% of the amount held in the escrow account (excluding amounts representing deferred underwriting commission and any taxes payable on the income earned on the funds in the escrow account).
- Resulting issuer must meet initial listing requirements:** The resulting issuer that emerges from the successful business combination must meet the applicable initial listing requirements provided in Chapter 2 of the Listing Rules of the SGX-ST Mainboard. These include 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. If these requirements are not met, the securities of the SGX SPAC will be delisted.
- Appointment of independent valuer:** An independent valuer must be appointed to value the businesses or assets to be acquired under the business combination of the SGX SPAC. The independent valuation report must be attached to the shareholders' circular for seeking the shareholders' approval for the business combination.
- Appointment of financial adviser:** An accredited issue manager must be appointed as a financial adviser to advise on the business combination so as to obtain a certain level of assurance on the quality of the business combination. Guidance should also be taken from the ABS Listings Due Diligence Guidelines in the conduct of due diligence for the business combination transaction.
- Full and true disclosures in shareholders' circular:** To ensure that Independent Shareholders of the SGX SPAC are making an informed decision when approving the business combination, the shareholders' circular seeking their approval must contain prospectus-level disclosures on information about the resulting issuer relating to key areas such as: (a) its financial position and

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operating control; (b) character and integrity of its incoming directors and management; (c) its compliance history; (d) its material licences, permits and approvals required to operate the business; and (e) the resolution and mitigation of conflicts of interests.

8. **Approval of business combination by independent directors and shareholders:** The business combination must be approved by: (a) a simple majority of the SGX SPAC's independent directors; and (b) a simple majority of the Independent Shareholders. The Sponsors, the management team, and their respective associates are excluded from voting on the business combination to ensure that there is independent scrutiny and assessment on whether the business combination transaction is conducted on an arms' length basis and on terms which are not prejudicial to the interests of the SPAC's Independent Shareholders.
9. **Completion of business combination:** Independent Shareholders who voted against the business combination have a right to elect to redeem their ordinary shares and receive a pro rata portion of the amount held in the escrow account in cash.
10. **SGX SPAC to be liquidated if business combination not completed or there is a material change to Sponsors and/or management:** The SGX SPAC will be liquidated if: (a) the business combination is not completed within the permitted time frame; or (b) there is a material change in the profile of the Sponsors and/or management team critical to the successful founding of the SPAC and/or successful completion of the business completion, and the SPAC fails to obtain an approval by a special resolution of the Independent Shareholders for the material change.

Upon the liquidation of the SGX SPAC, the remaining funds in the escrow account will be returned and distributed in cash to: (a) all Independent Shareholders on a pro rata basis, equal to their respective share of the amount in the escrow account at the time of the liquidation distribution; and (b) the Sponsors, the management team, and their respective associates in respect of shares purchased after the SPAC's IPO.

Proposals to Align Interests of Sponsors and Management with Independent Shareholders

Due to the unique characteristics and risks of a SPAC, SGX proposes to include the following requirements to ensure that the Sponsors and the management team of the SGX SPAC have interests which are aligned with that of the Independent Shareholders, namely, to complete the business combination successfully.

1. **Minimum equity participation by Sponsors and management team:** It is proposed that the Sponsors and the management team of the SGX SPAC be subject to a minimum aggregate subscription value of shares or units dependent on the market capitalisation size of the SPAC at IPO as set out below:

Client Update: Singapore

2021 APRIL

Capital Markets | Funds & Investment Management

Market Capitalisation (S\$ million) ("M")	Aggregate minimum value of shares / units subscribed on IPO issue price (S\$ million)
$300 \leq M < 500$	10
$500 \leq M < 1,000$	15
$M \geq 1,000$	20

2. **Moratorium to be observed:** It is proposed that the following moratorium requirements be applicable to the SGX SPAC:

- **Sponsors and management team of the SGX SPAC as well as their respective associates:** From the date of the SPAC's listing until at least six months from the date of completion of the business combination; and
- **Controlling shareholders of the resulting issuers and their associates, and executive directors of the resulting issuer with an interest in 5% or more of the issued share capital:** For at least six months from the date of completion of the business combination.

The issuer and the financial adviser appointed to advise on the business combination must demonstrate to SGX the appropriateness of the moratorium period to ensure alignment of interests of the aforementioned persons in respect of the business combination.

Proposals to Safeguard Against Dilution Risks for Shareholders of Resulting Issuer

Taking into account the practices in some jurisdictions with SPACs, SGX **proposes** implementing the following measures to ensure that the interests of the remaining shareholders in the resulting issuer are not diluted after the completion of the business combination of an SGX SPAC:

1. **Restrictions on redemption right after completion of business combination:** It is proposed that upon the completion of the business combination, only Independent Shareholders who voted against the business combination will be entitled to elect to redeem their ordinary shares and receive a pro rata portion of the amount held in the escrow account in cash. The redeemed shares will be cancelled and any accompanying warrants (if any) will be nullified and void. SGX is of the view that Independent Shareholders who voted for the business combination should not be afforded the redemption right as they have to stand by their voting decisions. This measure aims to prevent further dilution to the interests of the remaining shareholders of the resulting issuer due to additional financing required to complete the business combination.

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2. **Non-detachable warrant or convertible securities or Maximum percentage cap to dilution:**
To address concerns on dilution risks arising from the conversion of accompanying warrants (if any) after the business combination, SGX proposes two options: (1) the warrants (or other convertible securities) that are issued with the SGX SPAC shares at IPO must be attached to the underlying ordinary shares and traded as a single unit on the SGX-ST Mainboard. Upon redemption of the underlying ordinary shares by the shareholders who voted against the business combination, the warrants (or other convertible securities) will be nullified and void; or (2) as an alternative to non-detachable warrants, a maximum percentage cap on the resultant dilutive impact to shareholders post-business combination arising specifically from the exercise of conversion rights under the warrants (or other convertible securities). Feedback is sought on the preferred option to address this regulatory concern.

Providing Feedback to the Consultation Paper

If you have any queries on the above developments or would like to submit any feedback on the consultation paper, please feel free to contact **Hoon Chi Tern**, Partner, Capital Markets at chi.tern.hoon@rajahtann.com, or any of our team members below.

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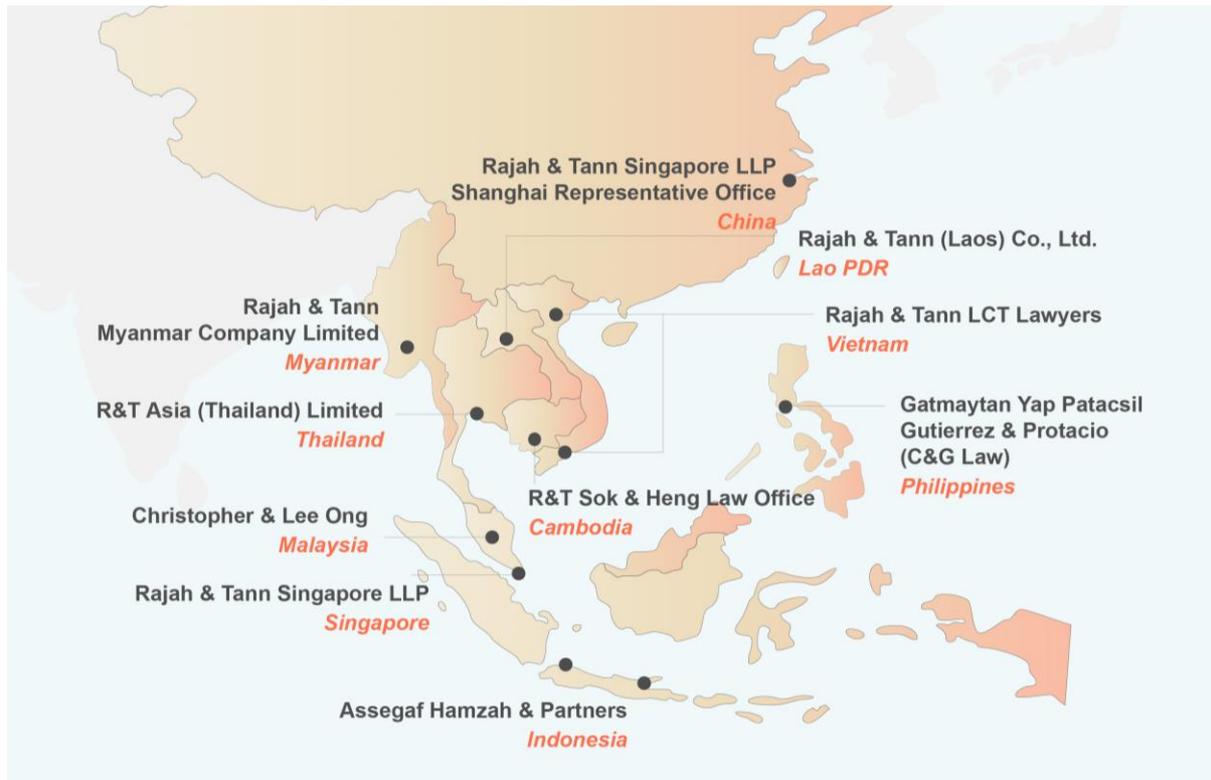
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