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# Singapore SPACs Listing Framework Takes Effect on 3 September 2021

## Introduction

With effect from 3 September 2021, Special Purpose Acquisition Companies ("**SPACs**") are allowed to list on the Mainboard of the Singapore Exchange Securities Trading Limited ("**SGX-ST Mainboard**"), providing companies an attractive alternative capital fund raising route.

The new initiative was announced by the Singapore Exchange Limited ("**SGX**") on 2 September 2021, following its consultation paper released in March 2021 that has received over 80 responses, "possibly the highest response rate to an SGX consultation in recent times", according to SGX. With significant support from the respondents to the SGX consultation for the introduction of a SPACs listing framework in Singapore, SGX proceeds with its proposal to offer SPACs as an investment product in the Singapore capital market. Changes to the SGX-ST Mainboard Listing Rules to implement the SPACs listing framework took effect on 3 September 2021.

This Update highlights the key requirements of the listing framework for 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.

## 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**").

## SGX SPAC – A Competitive Regime with Due Consideration on Investors Protection

SGX has emphasised that its focus on the SPAC listing framework is to seek a balanced regime that effectively safeguards investors' interests against certain concerns posed by the unique features of SPACs, while meeting the capital raising needs of the market. Hence, the proposed admission criteria for SGX SPACs set out in the earlier SGX consultation paper were generally more stringent than those prescribed by the securities exchanges in the US that allow SPAC listing. For example, SGX has initially proposed that a SGX SPAC must satisfy a minimum capitalisation requirement of S\$300 million. Taking

### Capital Markets | Funds & Investment Management

into account feedback that this may reduce the competitiveness of SGX SPACs as against those of other securities exchanges with SPAC regimes and that the target company for business combination is typically three to eight times the initial size of the SPAC, SGX has lowered the minimum capitalisation requirement to S\$150 million. Consequently, suitable acquisition target companies will have a market capitalisation of more than S\$450 million, comparatively higher than that for an issuer seeking a primary listing on the SGX-ST Mainboard. The minimum IPO issue price has also been lowered from the proposed S\$10 per share to S\$5 per share.

Carefully balancing the need for safeguarding investors' interests against boosting the competitiveness of SGX SPACs, SGX has recalibrated some of its initial proposed measures to address the concerns and dilution risks of SPACs with reference to feedback received pursuant to the consultation exercise. As it is in the interests of shareholders to complete the business combination earlier than later, SGX has shortened the permitted time frame for a SGX SPAC to complete the business combination from 36 months to 24 months, with an extension of time of up to 12 months if a binding agreement for the business combination has been signed before the end of such 24-month period.

Noting objections to its original proposal to require warrants or other convertible securities to be non-detachable from the underlying shares of the SPAC as the detachability of warrants is a fundamental feature of a SPAC in other jurisdictions in attracting investors, SGX has also updated that it will not proceed with such a proposal. Instead, SGX requires a SGX SPAC to specify the adopted maximum percentage cap (including bases) on the resultant dilutive impact to shareholders subsequent to a business combination arising specifically from the conversion of issued warrants (or other convertible securities) by the SPAC at IPO.

A summary of the key features of SGX SPACs is set out below.

### Admission Criteria for SGX SPACs

Under this new SGX framework, SPACs may be listed on the SGX-ST Mainboard by way of a primary listing. In addition to satisfying certain existing admission criteria for seeking a primary listing on the SGX-ST Mainboard, a SPAC is subject to the following additional admission criteria:

1. **Minimum market capitalisation:** A SGX SPAC must meet a minimum S\$150 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 300 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\$5 per share.

## Capital Markets | Funds & Investment Management

4. **Suitability assessment factors:** The factors that SGX will consider when assessing the suitability of a SGX SPAC for listing are set out in Practice Note 6.4 of the SGX-ST Mainboard Listing Rules ("**Practice Note 6.4**"). Such factors include:
- Profile of the founding shareholders (including their track record and repute) and experience and expertise of the management team of the SPAC;
  - Business objective and strategy of the SPAC;
  - Nature and extent of the management team's compensation;
  - Extent and manner of the securities participation of the founding shareholders and the management team in the SPAC and the alignment of interests between the founding shareholders and the management team with the interests of other shareholders; and
  - Articles of association and/or constituent documents of the SPAC which provide comparable shareholder protection and liquidation rights with that of a Singapore-incorporated company, and whether the SPAC will be subject to the Insolvency, Restructuring and Dissolution Act of Singapore ("**IRDA**") for liquidation procedures or the incorporation of such equivalent provisions of the IRDA, etc.

SGX has clarified that a SPAC will not be permitted to implement dual class shares structure at the time of its IPO.

## Measures Prior to And Related to Business Combination

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

1. **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. The amount in the escrow account cannot be drawn down except for the purposes of the business combination, on liquidation of the SPAC or under other specified circumstances set out in Practice Note 6.4. The escrow agent must be independent of the founding shareholders, the management team and their associates, as well as is a financial institution licensed and approved by the Monetary Authority of Singapore (MAS).
2. **Permitted time frame for completion of business combination:** A SGX SPAC must complete a business combination within a maximum time frame of 24 months from the date of its listing, with an extension of time of up to 12 months if a binding agreement for the business combination has been signed before the end of such 24-month period. If a SPAC has not entered into an agreement for the business combination by the end of the 24-month period, the SPAC may seek an extension of time from SGX to complete the business combination and must justify with a compelling reason for the extension of time. Such an extension of time must also be approved by at least 75% of the votes cast by the shareholders of the SPAC at a general meeting, excluding the votes of the founding shareholders, the management team as well as their associates with

### Capital Markets | Funds & Investment Management

respect to their shares acquired at nominal or no consideration prior to or at the IPO of the SPAC ("**sponsor's promote holding**").

3. **Business combination must result in sizeable and identifiable core business:** The business combination must fulfil the following requirements:
  - Initial business or asset acquired pursuant to the business combination by the SGX SPAC must have a fair market value of at least 80% of the amount held in the escrow account at the time of the entry of the binding agreement for the business combination (excluding amounts representing deferred underwriting fees and any taxes payable on the income earned on the escrowed funds). The SGX-ST Mainboard Listing Rules state that where the SPAC consummates multiple concurrent acquisitions or mergers as part of the business combination, there must be at least one initial acquisition which satisfies the requirement of having a fair market value constituting at least 80% of the amount in the escrow account at the time of entry into the binding agreements for the business combination transactions. However, SGX has indicated that they may be prepared to consider waiver on a case-by-case basis to allow for the SPAC to aggregate multiple concurrent acquisitions to meet the 80% threshold in the context of portfolio acquisitions in certain industries and asset classes such as infrastructure and real estate; and
  - Result in an identifiable core business of which the resulting issuer has a majority ownership and/or management control.
4. **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.
5. **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 in the following circumstances:
  - Where the business combination is not undertaken together with a contemporaneous subscription by or placement of equity securities of the issuer to institutional or accredited investors (e.g. PIPE investors such as private equity funds consisting of institutional or accredited investors); or
  - Where the businesses or assets to be acquired under the business combination involves a mineral, oil and gas company, or property investment/development company.

Where an independent valuer is not appointed in any other instances, disclosure must be made in the shareholders' circular for the business combination as to why it is not necessary to obtain an independent valuation and the basis for forming such views.

### Capital Markets | Funds & Investment Management

6. **Full disclosure in shareholders' circular:** To ensure that the 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 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.
7. **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 (by way of an ordinary resolution) of the shareholders of the SPAC at a general meeting. The founding shareholders, the management team, and their respective associates are not permitted to vote on the business combination with respect to their sponsor's promote holding. For clarity, where applicable, the business combination is subject to the Interested Person Transactions (IPT) requirements set out in Chapter 9 of the SGX-ST Mainboard Listing Rules.
8. **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 SGX-ST Mainboard Listing Rules. 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.
9. **SGX SPAC to be liquidated if business combination not completed or there is a material change to founding shareholders 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 founding shareholders and/or management team critical to the successful founding of the SPAC and/or successful completion of the business combination, and the SPAC fails to obtain an approval by a special resolution of the independent shareholders for the material change and continued listing of the SPAC on SGX-ST. The founding shareholders, the management team and their respective associates are not allowed to vote on the continued listing of the SPAC.

Upon the liquidation of the SGX SPAC, the remaining funds in the escrow account will be returned and distributed to all shareholders on a pro rata basis save that the founding shareholders, the management team and their respective associates are required to waive their right to participate in the liquidation distribution in respect of all equity securities owned or acquired by them prior to or pursuant to the IPO.

Capital Markets | Funds & Investment Management

## Aligning Interests of Founding Shareholders and Management with Independent Shareholders

Due to the unique characteristics and risks of a SPAC, the following requirements are put in place to ensure that the founding shareholders and the management team of the SGX SPAC have interests which are aligned with that of the other shareholders of the SPAC, namely, to complete the business combination successfully.

1. **Minimum equity participation ("MEP") by founding shareholders and management team:** The founding shareholders and the management team of the SGX SPAC are subject to a percentage-based MEP requirement dependent on the market capitalisation size of the SPAC at IPO as set out below:

Market Capitalisation of the SPAC (S\$ million) ("M")	Proportion of Subscription
$150 \leq M < 300$	3.5%
$300 \leq M < 500$	3.0%
$M \geq 500$	2.5%

2. **Moratorium to be observed:** The moratorium requirements applicable to an issuer listed on the SGX-ST Mainboard via a traditional IPO apply to the SGX SPAC as follows:
  - **Founding shareholders 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 of the resulting issuer:** For at least six months from the date of completion of the business combination.

## Safeguards Against Dilution Risks for Shareholders of Resulting Issuer

To address concerns on dilution risks for shareholders after the business combination, SGX had proposed in its earlier consultation paper to, among other things, restrict the redemption rights of independent shareholders who voted for the business combination after the completion of the business combination and require warrants or other convertible securities to be non-detachable from the underlying shares of the SPAC.

## Capital Markets | Funds & Investment Management

Taking into account feedback on these proposals and balancing investors' commercial expectations vis-à-vis regulatory considerations on these proposals, SGX has decided not to implement these proposed measures.

However, to address the concerns relating to the dilutive impact to shareholders remaining with the resulting issuer from warrants conversion and to encourage sponsors to exercise discipline in respect of warrants issuance, the SPAC is required to specify the adopted maximum percentage cap (including bases) on the resultant dilutive impact to shareholders subsequent to business combination arising specifically from the conversion of issued warrants (or other convertible securities) by the SPAC at IPO. Such limit must be no more than 50% in respect of the maximum dilution to the SPAC's post-invitation issued share capital (including the sponsor's promote) with respect to the conversion of warrants issued by the SPAC in connection with the IPO.

The maximum percentage cap and the dilutive effect to shareholders must be disclosed in the IPO prospectus and the shareholders' circular for business combination.

SGX has also taken on board feedback from respondents that the detachability of warrants is a fundamental feature of a SPAC that serve to compensate a SPAC's IPO investors the opportunity cost of having their respective invested capital escrowed and be subject to the business risks of the SPAC. SGX has clarified that in acknowledgment of the importance of detachability of warrants, the warrants may be detachable, subject to regulatory safeguards in the form of a cap on the sponsor's promote and enhanced moratorium requirements post completion of the business combination.

## Further Information

For more information on the new SGX SPAC listing framework, please click [here](#) for the SGX press release dated 2 September 2021 titled "*SGX introduces SPAC listing framework*".

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