

SGX Issues Consultation Paper on Special Purpose Acquisition Companies

In recent times, special purpose acquisition companies (**SPACs**) have become the topic of discussion in global capital markets as a way for companies to access public funds in a volatile market. On 31 March 2021, the Singapore Exchange (**SGX**) released a consultation paper to seek feedback from the public on the SGX's proposal to introduce a primary listing framework for SPACs in Singapore to list on the Main Board of Singapore Exchange Securities Trading Limited (**SGX-ST**). The consultation paper may be obtained from the SGX's website: <https://tinyurl.com/5r9kmsmd>.

Webinar by WongPartnership on SPACs: Click [here](#) to register your interest.

Introduction to SPACs

SPACs are companies with no prior operating history, operating and revenue-generating business or asset at the time of listing. They are formed to raise capital through an initial public offering (**IPO**) for the sole purpose of acquiring operating business(es) or asset(s). The acquisition of a target company may be in the form of a merger, share exchange, asset acquisition or other business combination methods (**business combination**). A SPAC is generally established and initially financed by experienced founding shareholders (typically referred to as sponsors). Investors primarily invest in SPACs on the basis of the expertise and track record of the founding shareholders and management team. The majority of IPO funds raised are typically placed in an escrow account, where utilisation will primarily be for the consummation of the business combination.

SPACs may issue shares or units. Where units are issued, each unit may consist of a share and warrants (or other convertible securities). Investors stand to gain additional upside opportunities if the SPAC issues accompanying warrants (or other convertible securities) with shares at its IPO. This provides investors an option to purchase additional shares in the resulting issuer (defined below) after the business combination.

After listing, the SPAC begins its search for a target company for a business combination. If the SPAC fails to complete the business combination within the permitted time frame, the SPAC is liquidated and the remaining funds which had been held in an escrow account, are returned to shareholders. If it successfully completes a business combination, the resulting combined entity post-business combination (**resulting issuer**) will continue its listing on the exchange as a typical public-listed company.

Framework for SPACs

A brief summary of the SPACs framework contemplated by the SGX based on the consultation paper is set out below:

Broad Admission Criteria

There are several broad admission criteria, the key aspects of which are as follows:

- (a) **Minimum Market Capitalisation** – A minimum S\$300 million market capitalisation, computed based on the IPO issue price and post-invitation issued share capital.
- (b) **Public Float** – At least 25% of the total number of issued shares of the SPAC are to be held by at least 500 public shareholders at the time of IPO.
- (c) **Minimum Issue Price** – A minimum IPO issue price of S\$10 per share, instead of the existing minimum issue price of S\$0.50 per share for Mainboard listings.
- (d) **Jurisdiction of Incorporation** – The SPAC must be incorporated in Singapore.
- (e) **Dual Class Share Structure (DCS)** – The SPAC is not permitted to adopt a DCS structure for its IPO.

- (f) Minimum Percentage of IPO Proceeds held in Escrow – At least 90% of the gross IPO proceeds are to be held in escrow pending the business combination. Cash will be returned on a pro rata basis to any shareholder who votes against the business combination or upon the liquidation of the SPAC.
- (g) Non-Detachable Convertible Securities – Any warrant (or other convertible securities) issued with the ordinary shares of the SPAC at IPO must be non-detachable from the underlying ordinary shares of the SPAC for trading on SGX-ST.

Criteria relating to the Business Combination

As SPACs are established to raise public proceeds for the sole purpose of undertaking a business combination, the following proposed criteria relate to the business combination of the SPAC:

- (a) Time Frame – Three-year permitted time frame from IPO date to complete the business combination. An extension of time may be permitted under limited circumstances and will require the approval of independent shareholders via special resolution. SGX-ST is also required to provide a “no objection” ruling to such an extension.
- (b) Market Value of Target – The business combination must comprise at least one principal core business with a fair market value forming at least 80% of the gross IPO proceeds held in escrow.
- (c) Resulting Issuer to meet Initial Listing Requirements – The resulting issuer must meet the initial listing requirements under Chapter 2 of the Mainboard Rules, such as quantitative admission criterion, public spread and distribution requirements, and qualitative requirements.
- (d) Approval – The business combination can only proceed with approval from a simple majority of the SPAC’s independent directors and an ordinary resolution of the independent shareholders.
- (e) Appointment of Professionals – There must be appointed (i) an accredited issue manager as financial advisor to advise on the business combination and (ii) an independent valuer to value the target company.
- (f) Disclosure Requirements – The shareholders’ circular on the business combination must comply with prospectus disclosure requirements under the Securities and Futures Act, including key areas such as:
 - (i) financial position and operating control;
 - (ii) character and integrity of the incoming directors and management;
 - (iii) compliance history;
 - (iv) material licences, permits and approvals required to operate the business; and
 - (v) resolution of conflicts of interests.

Conditions for Certain Individuals and Entities

Founding shareholders are persons who founded, initially financed or sponsored the establishment of a SPAC. There are certain conditions for founding shareholders, management team and controlling shareholders of a SPAC, which also serve as safeguards for independent shareholders, as follows:

- (a) Minimum Shareholding Requirements – Founding shareholders and/or the management team must hold minimum equity at IPO of between 1.5% to 3.3%, depending on the SPAC market capitalisation at the time of IPO.
- (b) Shareholding Moratorium – There will be a moratorium on the direct and indirect shareholding interests in the SPAC held by founding shareholders, the management team, the controlling shareholders and their respective associates, among others, from (i) the time of listing until the completion of business combination and (ii) for at least 6 months from the completion of the business combination.

Investor Protection Safeguards

- Redemption Rights of Shareholders – To safeguard against dilution risks, only independent shareholders who vote against the business combination will be afforded the right to elect to redeem their ordinary shares and receive a pro rata portion of the amount held in the escrow account in cash, if the business combination is completed within the permitted time frame. Independent shareholders who vote for the business combination and who do not participate in the vote are excluded from this.

- Liquidation Mechanism – The SPAC will be liquidated if it fails to (i) complete a business combination within the permitted period; or (ii) obtain specific independent shareholders' approval for an event of material change (i.e., a material change that occurs in relation to the profile of the founding shareholders and/or the management team which may be critical to the successful founding of the SPAC and/or successful completion of the business combination).
- Rights to Liquidation Distribution of Shareholders – In the event of a liquidation, the remaining funds will be returned in cash on a pro rata basis to (i) all independent shareholders and (ii) the founding shareholders, the management team, and their respective associates but only in respect of shares purchased after the SPAC's IPO. The parties specified in (ii) must 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.
- Non-Detachable Warrants – The warrants (or other convertible securities) attached to the underlying shares are traded as a single unit, and upon the exercise of the right to redeem by dissenting shareholders of the business combination, the warrants (or other convertible securities) will be nullified and cancelled.
- Resulting Issuer to meet Initial Listing Requirements – Please refer to paragraph (c) of "Criteria Relating to the Business Combination" above.

The introduction of a detailed regime for SPACs in Singapore further-enhances the product offerings available on SGX-ST and its profile as an innovative and leading international exchange. The SGX-ST aims to implement the SPAC regime by the end of 2021 and we expect that offerings and listings of SPACs in Singapore will follow shortly after.

If you would like information or assistance on the above or any other area of law, you may wish to contact the Partner at WongPartnership whom you normally work with or any of the following Partners:

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