

SGX announces Special Purpose Acquisition Companies (SPACs) listing framework

On 31 March 2021, Singapore Exchange Securities Trading Limited (**SGX**) released a consultation paper (**Consultation Paper**) seeking feedback from the public on the SGX proposal to introduce a primary listing framework for SPACs in Singapore to list on the Mainboard of SGX. Our update on the Consultation Paper issued on 1 April 2021 is available [here](#).

Today, the SGX announced its rules to enable SPACs to list on the Mainboard of SGX. With this framework, companies have yet another capital markets avenue to a listing on SGX.

The SGX's SPACs rules differ in some respects from the framework set out in the Consultation Paper, reflecting the results of the SGX's engagement with stakeholders after receiving strong market interest in responding to the Consultation Paper and general support for a SPACs listing framework.

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 is set out below.

Admission criteria

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

- (a) **Minimum Market Capitalisation:** A minimum S\$150 million market capitalisation, computed based on the IPO issue price and post-invitation issued share capital.

- (b) Shareholding Spread: At least 25% of the total number of issued shares of the SPAC is to be held by at least 300 public shareholders at the time of the IPO.
- (c) Minimum Issue Price: A minimum IPO issue price of S\$5 per security. Securities may consist of a share and warrant (or other convertible securities).
- (d) Jurisdiction of Incorporation: There is no specific requirement for the SPAC to be incorporated in Singapore. The SGX will consider the provisions of the SPAC's constitutive documents and the comparability of shareholder protection and liquidation rights for SPACs incorporated in jurisdictions outside of Singapore (as compared to Singapore-incorporated companies) as well as whether the SPAC will subject itself to the Insolvency, Restructuring and Dissolution Act 2018 of Singapore.
- (e) Dual Class Share Structure (DCS): The SPAC is not permitted to adopt a DCS structure at its IPO. SGX clarified that it intends to permit SPACs to issue different classes of shares with differential rights (e.g., redemption or liquidation rights), except for voting rights (including with respect to director appointments on the SPACs' boards).
- (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. Interest and income earned from the escrowed funds may be drawn by the SPAC for certain purposes (e.g., general working capital and expenses incurred to identify and complete a business combination).
- (g) Warrant or Other Convertible Securities: Any warrant (or other convertible securities) issued in connection with the IPO may be detachable from the underlying ordinary shares of the SPAC for trading on SGX and must not be exercisable prior to the completion of the business combination. SPACs will be required to establish a limit on dilution of the warrants (or other convertible securities) issued in connection with the IPO of not more than 50% of the SPAC's post-invitation share capital (inclusive of the promote).
- (h) Promote: The promote (i.e., equity securities acquired by the founding shareholders, management team, and their associates at a nominal or no consideration) is generally permitted up to a limit of 20% of the SPAC's issued share capital (on a fully diluted basis) immediately following the IPO.

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 a SPAC:

- (a) Time Frame: The SPAC must complete a business combination within 24 months from the date of listing (or, if the SPAC has entered into a legally binding agreement for such business combination within the 24-month period, the SPAC may complete the business combination no later than 12 months from the relevant deadline subject to certain conditions). Any other extension of time may be permitted under limited circumstances and will require the approval of independent shareholders via special resolution and an application to SGX.
- (b) Market Value of Target: The initial business combination must comprise at least one core principal business with a fair market value forming at least 80% of the amount held in escrow. There may be other concurrent acquisitions or mergers as part of the business combination. SGX may consider a waiver on a case-by-case basis to allow multiple acquisitions to satisfy the 80% threshold if these can be considered portfolio acquisitions.

- (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 shareholders (other than in respect of shares held by founding shareholders, management and their associates which were acquired at nominal or no consideration prior to or at the IPO), subject to the requirements under Chapter 9 of the Mainboard Rules in respect of interested person transactions.
- (e) Appointment of Professionals: An accredited issue manager as financial advisor must be appointed to advise on the business combination. An independent valuer will generally not be required, but may be required under certain circumstances to value the target company (e.g., where there is no PIPE (private investment in public equity) investment). SGX retains the discretion to require the appointment of an independent valuer.

Conditions for certain individuals and entities

Founding shareholders are persons who founded and 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 Securities Participation: The SPAC's founding shareholders and management team must, in aggregate, subscribe for a minimum value of equity securities (based on the subscription price at the IPO) in accordance with specified percentages (between 2.5% and 3.5%) depending on the SPAC's market capitalisation. This may be done at the point of the IPO or by way of an irrevocable commitment to do so no later than with the simultaneous completion of the business combination, or a combination of both.
- (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, pre-IPO investors and their respective associates, among others: (i) from the time of listing until the completion of business combination; and (ii) for at least six months from the completion of the business combination.

Redemption and liquidation

- Redemption Rights of Shareholders: SGX will not be implementing measures to limit redemption rates at this point in time and will instead afford flexibility to the market to commercially determine the appropriateness of establishing any redemption limits for a SPAC. If a SPAC were to establish a limit on the maximum number of shares with respect to which an independent shareholder together with its associates and concert parties may exercise a redemption right, that limit cannot be lower than 10% of the shares issued at the IPO, must be disclosed in the IPO prospectus, and apply equally to all independent shareholders. SGX will closely monitor the developments on this front and introduce targeted measures where necessary.
- Liquidation Mechanism: A SPAC will be liquidated if it: (i) fails to complete a business combination within the permitted period (including failure to obtain specific shareholders' approval for an extension of time); (ii) fails to 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); or (iii) is directed to delist by SGX.

- 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) above 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.

The introduction of a detailed regime for SPACs in Singapore further-enhances the product offerings available on SGX, and its profile as an innovative and leading international exchange. The SGX's SPACs rules are effective from 3 September 2021.

For the SGX's 2 September 2021 Proposed Listing Framework for Special Purpose Acquisition Companies (Responses to Comments on Consultation Paper), please click [here](#). For the SGX's Consultation Paper on Proposed Listing Framework for Special Purpose Acquisition Companies, please click [here](#).

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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