LISTING FRAMEWORK FOR SPECIAL PURPOSE ACQUISITION COMPANIES

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<u>Background</u>

On 31 March 2021, the Singapore Exchange ("**SGX**") issued a consultation paper on "Proposed Listing Framework for Special Purpose Acquisition Companies" ("**Consultation Paper**") pursuant to which public feedback was sought on the SGX's proposal to introduce a primary listing framework for special purpose acquisition companies ("**SPACs**") on the Mainboard of the Singapore Exchange Securities Trading Limited ("**SGX-ST**")

On 2 September 2021, the SGX, having received and reviewed feedback from the public, issued its responses to comments on the Consultation Paper ("**Response Paper**"). In the Response Paper, the SGX announced that, effective from 3 September 2021, new rules that would enable SPACs to list on the Mainboard of the SGX-ST will be adopted.

This article provides a brief background as to what a SPAC is, and focuses on the key features of the SGX's SPAC framework. For more details, please refer to the Response Paper and the Consultation Paper. Please also refer to our previous publication entitled "SPACs in Singapore" for a summary of the proposals put forth in the Consultation Paper.

<u>What is a SPAC</u>

A SPAC is a company incorporated for the purpose of raising capital through issuance of securities (usually in the form of shares and warrants) at an initial public offering ("**IPO**"). A SPAC is a shell company at the time of the IPO, and a substantial portion of the proceeds raised at the IPO are held in an escrow account for future use in acquiring operating private companies or assets through a business combination.

SGX's SPAC Framework – Key Features

IPO Admission Criteria

Minimum Market Capitalisation Requirement

Under the SGX's SPAC framework, for a SPAC to be listed on the Mainboard of the SGX-ST, it is required to have a minimum market capitalisation of S$150 million, which is computed based on the IPO issue price and post-invitation issued share capital. This is a reduction from the previously proposed S$300 million in the Consultation Paper.
The SGX has recognised that a business combination is typically at least 3 to 8 times the initial SPAC size. As such, the adoption of this S$150 million threshold will be sufficient to facilitate the consummation of a quality and sizeable business combination, as (i) the business combination is required to constitute at least 80% of the fair market value of the SPAC's escrowed funds (see section (b) of "Business Combination Requirements" below); and (ii) the SGX is imposing a requirement for the resulting issuer to meet the Mainboard initial listing requirements upon business combination.

Public Float Requirements

Another requirement under the SGX's SPAC framework is that at least 25% of the SPAC's total number of issued shares (excluding treasury shares) must be held by at least 300 public shareholders at IPO. This is a reduction from the 500 public shareholders requirement previously proposed under the Consultation Paper.

Minimum Issue Price

Having considered the market feedback and suggestions, the SGX has decided to require a minimum IPO issue price of S$5 per share or unit (half of that which was previously proposed in the Consultation Paper).

The SGX is of the view that the revised minimum issue price will be sufficiently high to signal to retail investors to carefully consider the associated risks of investing in a SPAC, whilst giving sponsors more commercial flexibility in pricing the SPAC's shares.

Business Combination Requirements

Permitted Time Frame for Completion of Business Combination

Under the new SPAC framework, a SPAC must complete a business combination within 24 months from the date of its IPO. The SGX explained that this shorter timeline as compared to the previously proposed 36 months in the Consultation Paper is in line with US market practice, and will encourage SPACs to expeditiously identify suitable targets for consummation of the business combination.

Notably, this 24-month permitted time frame may be extended in two ways:

- Automatic extension: Where a binding agreement has been entered into for the business combination before the end of the 24-month period, an automatic extension of time of up to 12 months from the relevant deadline to complete the business combination is accorded.
- Extension with SGX's and shareholders' approval: Where a binding agreement has not been entered into for the business combination before the end of the 24-month period, and the SPAC wishes to have more time to identify a suitable business combination, the SPAC must obtain approvals from SGX and its shareholders, and demonstrate compelling reasons for a time extension of up to a maximum of 12 months.

The abovementioned extensions of time are subject to an overall maximum time frame of 36 months from the date of listing to complete the business combination.

Value of Target Relative to Amount in Escrow Account

The initial business or asset acquired pursuant to the business combination must have a fair market value of at least 80% of the amount in the escrow account (please see paragraph below on "Escrow Account").

The SGX noted that it is important to retain the requirement for an initial acquisition to meet the fair market value threshold to ensure that the resulting issuer has a sizeable and identifiable core business of which it has majority ownership and/or management control. Further, having refined the minimum market capitalisation requirement of the SPAC IPO, the SGX is of the view that there should not be hardship in meeting the 80% threshold with the SPAC's initial acquisition.

Approvals Required

The business combination must be approved by (a) a simple majority of independent directors, and (b) an ordinary resolution passed by shareholders at a general meeting. The SGX emphasized that independent directors will play a pivotal role in a SPAC as a check and balance to safeguard the interests of the SPAC and/or its independent shareholders.

Other Safeguards

Escrow Account

Upon IPO, the SPAC must place at least 90% of the gross proceeds raised from its IPO in an escrow account opened with and operated by an independent escrow agent that is a financial institution licensed and approved by the Monetary Authority of Singapore.

Such amounts placed in the escrow account cannot be drawn down except for the purposes of the business combination, on liquidation of the SPAC or other specified circumstances. The SPAC, through the escrow agent, shall be allowed to invest the escrowed funds only in permitted investments until completion of a business combination.

Minimum Equity Participation and Moratorium

In order to align the interests of founding shareholders' and management team with other independent shareholders, an MEP requirement is stipulated which requires founding shareholders' and management team to subscribe for a minimum value of equity securities (based on the subscription price at IPO).

A moratorium period also applies to restrict founding shareholders, the management team, and their associates from transferring their interests.

Detachability of Warrants

Warrants may be issued in connection with a SPAC IPO or prior to the completion of a business combination.

The SGX's SPAC framework permits the detachability of warrants, allowing for shares and warrants of the SPAC to be traded separately. The SGX acknowledged that the detachability of warrants remains fundamental to the dynamics of investors' considerations in a SPAC investment, and is an inherent feature that ultimately gives the SPACs Framework its commercial attractiveness.
However, to address dilution concerns arising from the conversion of warrants, SPACs are required to adopt a dilution cap – the maximum dilution resulting from conversion of convertibles (including warrants) on the post-invitation issued share capital shall not be more than 50%.

Conclusion

The introduction of the SGX's SPAC framework is a much-needed and timely boost to Singapore's capital markets landscape. With investors being provided an alternative fundraising route that allows for greater certainty on timing and valuation, it is hoped that the new listing framework will revitalise the Singapore IPO market and attract investments into Singapore.