28 April 2021

Singapore Exchange Regulation
11 North Buona Vista Drive
#06-07, The Metropolis Tower 2
Singapore 138589

Attention: IPO Admissions

Via email: listingrules@sgx.com

Re: Proposed Listing Framework for Special Purpose Acquisition Companies

Dear Madam / Sir,

CFA Institute and CFA Society Singapore are pleased to provide you with our perspectives on areas for consideration in relation to the consultation paper issued by the Singapore Exchange ("SGX") on the proposed listed framework for special purpose acquisition companies (the "Proposal").

Our comments are consistent with the objective of CFA Institute[1] and CFA Society Singapore to uphold and enhance market integrity and investor protection in financial markets. The healthy functioning of financial markets is key to efficient and effective capital allocation, which in turn drives innovation and sustained economic growth.

In the global context, public financial markets have undergone profound changes in the decade since the global financial crisis (the "GFC") in 2009. As noted in a CFA Institute report[2] on capital formation, the surge in liquidity globally post-GFC meant that the market power of entrepreneurs in accessing capital for their businesses has increased to the extent that avoiding public markets entirely has become feasible. At the same time, pressure on public companies has been growing, due to increasing corporate disclosure requirements, listing standards, and governance practices.

In this setting, we understand and appreciate the effort of SGX in its attempt to introduce Special Purpose Acquisition Vehicles ("SPACs") into Singapore. Given SPACs' explosive popularity in the United States in the last 18 months, it is understandable for SGX to explore this as a means to add depth and diversity to the market, ensure Singapore's relevance and competitiveness, and cement its role as a hub for fund raising for South East Asian growth companies. However, we also believe that market development needs should be balanced with robust investor protection and sound corporate

[1] CFA Institute is the global association of investment professionals that sets the standard for professional excellence and credentials. The organization is a champion of ethical behaviour in investment markets and a respected source of knowledge in the global financial community. Our aim is to create an environment where investors' interests come first, markets function at their best, and economies grow. There are more than 170,000 CFA charterholders worldwide in 164 markets. CFA Institute has nine offices worldwide and there are 161 local member societies.

[2] Rosov, S. "Capital Formation: The Evolving Role of Public and Private Markets", CFA Institute, November 2018, https://www.cfainstitute.org/-/media/documents/article/position-paper/capital-formation.ashx.

governance practices. Without such balance, there is potential for poor investor experience souring not just the future SPAC issuances, but investors' faith and trust in capital markets as a whole.

The importance of this balance is acknowledged in the Proposal, and the package of rules and safeguards is a considered attempt in achieving such balance. That said, there are a number of ways in which the protection of targeted investor groups can be strengthened by taking into account different characteristics of a SPAC at different points of its life cycle.

There are essentially four key stages of a SPAC: (1) IPO, (2) post-IPO trading, (3) merger or "de-SPACing", and (4) post-merger listing. From our research and conversations with market participants across the world, it is clear that the ownership profile and the risks shareholders face differ across this SPAC life cycle, and hence there should be differentiation in the level of regulation, scrutiny and safeguards at different stages of a SPAC's life, and an appreciation of the distinct target investor groups that protection measures are directed at.

Stage 1: IPO

- The SGX Proposal is thoughtful and considers a number of details in the area of admission criteria. All of these details are important and together form an effective package of safeguards. However, inherent in the SPAC structure is a lack of alignment of long term interests between sponsors and shareholders. In our view, three key factors stand out as having the most impact in aligning such interests:
  - Quality of sponsors
  - Minimum equity participation
  - Cap on promote
- **Quality of sponsors:** Research has shown that the SPACs with a high-quality sponsor, such as a large fund manager, former CEO or C-suite level executive at a Fortune 500 company, performed relatively well compared to others.[3] In the United States, the Securities and Exchange Commission ("SEC") has cautioned investors about investing in SPACs associated with celebrities. We believe there is further scope for SGX to articulate its expectations of sponsors in the new framework, including, for example, their experience in mergers and takeovers, their track record in previous SPACs or similar transactions, and the returns realized by their investors. Sponsors should be mandated to disclose the number of SPACs they are involved in concurrently, and if and how they will deal with potential conflicts of interest that may arise.
- **Minimum equity participation:** Left to the free market, we believe most founding shareholders and management team will not put up personal funds in the SPAC. Hence, regulatory requirement is necessary to align the otherwise divergent interests of stakeholders and temper moral hazards associated with SPACs. The quantum of the requisite minimum equity participation should be substantial enough to align interest.

[3] Klausner, M. D., Ohlrogge, M., and Ruan, E., "A Sober Look at SPACs", October 28, 2020. Yale Journal on Regulation, Forthcoming, Stanford Law and Economics Olin Working Paper No. 559, NYU Law and Economics Research Paper No. 20-48, European Corporate Governance Institute – Finance Working Paper No. 746/2021, https://ssrn.com/abstract=3720919 or http://dx.doi.org/10.2139/ssrn.3720919

- **Cap on promote:** The consultation paper rightly points out that promote is an "incentive tied to deal completion rather than the long-term success of any business combination." An alternative approach to better align the compensation of the sponsor to the long-term success of business combination is to grant promote in a combination of warrants and shares, with warrants as the preferred instrument over shares for better alignment of interest. The warrants can be structured to partly pay out when the merger is approved, with the rest subject to post-merger shareholder value creation. The idea that promote is tied to both merger and post-merger success resonated among market participants we spoke to.
- A good example of this is Pershing Square Tontine Holdings (PTSH) in which the sponsor has foregone the typical 20% promote and instead will buy warrants that are only transferrable or exercisable three years after the merger, at fair market value. This is in contrast with sponsor warrants which are typically exercisable 30 days after closing of the merger and thus incentivize sponsors to do any deal rather than do a quality deal and cause the interests of sponsors and investors to further diverge.
- We note that a regulatory mandate for equity participation by sponsors is a unique feature of the SGX SPAC framework, along with the proposed extended moratorium and restriction from voting on the merger. This is a powerful combination of safeguards but may deter prospective sponsors. Perhaps one possible flexibility is to allow for a lower minimum equity participation if sponsors are tied to long term warrants, or even eliminate the equity participation entirely if the entire remuneration for the sponsors is tied to shareholder value creation and can only be realized two or three years after merger.

Stage 2: Post-IPO trading

- IPO shares typically come with detachable warrants so that IPO investors enjoy the implicit capital guarantee through redemptions and can potentially take advantage of any upside through warrants. SPAC shares traded in the secondary market are typically stripped off warrants, which are kept by the selling shareholder for potential upside. One of the questions in the Proposal is whether warrants should be detachable. If they are not, then any share sale would also mean the loss of the optionality inherent in the warrants. This is a bold suggestion. However, we feel this is too much of a departure of a typical SPAC structure and would render it unattractive to both sponsors and investors. Nevertheless, as seen in the PTSH example, even if non-detachable warrants are not a regulatory requirement, they can still be a feature offered by sponsors to differentiate their SPACs from others.
- In the United States, retail investors have taken up a rising portion of post-IPO trading in SPACs. According to Bank of America, retail investors represented 46% of trading volume in SPACs on its platform in January 2020, an increase of 30% from two months ago.[4]
- In Singapore, and indeed in many Asia markets, there is a high level of direct retail participation in the stock market. The risk is that if a large portion of IPO investors sell into the market post-IPO, the ownership profile may shift towards those retail investors who are less

[4] "SPAC transactions come to a half amid SEC crackdown, cooling retail investor interest", CNBC, April 21, 2021. https://www.cnbc.com/2021/04/21/spac-transactions-come-to-a-halt-amid-sec-crackdown-cooling-retail-investor-interest.html.

informed and who may be making an investment decision based on the fame or star quality of the sponsor. Such investors also would not have the benefit of the upside from the warrants.

- Although some individual investors may have significant pools of investible assets, this does not necessary translate into ability to understand a complex SPAC framework. Indeed some market practitioners we spoke to wondered if retail investors in Singapore were mature enough to be investing in SPACs. It might be extreme to suggest restrictions on retail investors from participating in SPACs, especially since "retail" investors are diverse in their technical skill sets and doing so will penalize those who do understand SPACs. Hence, we believe in the need to focus on investor education and ensure individual investors are aware of the risks, and their responsibility as shareholders to vote their proxies, attend meetings, and make informed decisions.
- Financial advisors should also be reminded of their duty of care and suitability assessment requirements when recommending SPACs to their clients. Guidance from MAS on lending against SPAC shares may be needed.

Stage 3: Merger or de-SPACing

- We believe the risk is the highest at this stage of the SPAC life cycle because of the complexity of SPAC mergers, and hence warrants a significant amount of regulatory attention. Not only would shareholders have to evaluate the target and the merger terms, they also have to understand the financial engineering aspects of the transaction, in particular any additional fund raising, side deals and further dilution, all of which have an enormous impact on their return.
- Full and clear disclosures are a must – sponsors must set out in a clear, user-friendly way, in one single document, the components of the consideration, be they in cash or securities; the source and amount of additional funding that would be required; details of any side-deals that the sponsor may have reached; and the level of dilution under different redemption scenarios. This is of critical importance since even seasoned investors would struggle to master all this information.
- One of the questions raised in the proposal is the need for a financial advisor to advise on the proposed merger and/or an independent valuer to prepare an independent valuation report on the target. Our view is that instead of a hard coded requirement, this can be encouraged as a best practice guidance. Regardless of whether a financial advisor or an independent valuer is appointed, what is more important is that they are appointed by and answerable to the independent directors of the SPAC. Independent directors should have an enhanced governance role in SPACs and independent shareholders should have a greater say in their nomination and appointment.
- Other considerations include time provided for shareholders to consider the transaction, and if a shareholder meeting is needed for shareholders to ask questions and to vote. We note that retail investors rarely participate in shareholder meetings or vote their proxies, but the stakes are a lot higher here than in the course of normal business.
- In the event that the merger falls under the definition of an Interested Persons Transaction ("IPT") as defined in Chapter 9 of the SGX Rule Books, SGX should clarify if and how IPT rules apply.

Stage 4: Post-merger listing

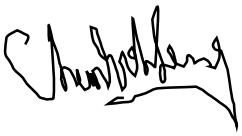
- In the United States, some of the perceived attractions of a SPAC structure appear to have stemmed from lessened liability vis-a-via conventional IPOs and the ability to take advantage of safe harbour provisions for forward-looking statements. Recent guidance from the SEC suggests that such claims of regulatory arbitrage may be overstated or misleading, and they are intensifying scrutiny of SPAC transactions.[5]
- The bottom line is that there should not be substantive differences for companies seeking a listing, whether via a SPAC, or a reverse takeover or a conventional IPO. In this regard the clarity of SGX's intention to require the de-SPAC entity to meet initial listing requirements is welcomed. Once the merger is complete, the company becomes a normal listing company and is subject to normal listing rules.

Conclusion

We acknowledge the desire to add depth and diversity to the Singapore public markets while upholding a high level of corporate governance and investor protection. We believe SGX's Proposal to introduce SPAC is well-thought out and we welcome the opportunity to discuss our observations and suggestions with SGX.

Should you have any question about our positions, please do not hesitate to contact Mary Leung, CFA, at mary.leung@cfainstitute.org or Chan Fook Leong, CFA, at chan.fookleong@cfasocietysingapore.org.

Yours faithfully,



Mary Leung, CFA
Head, Advocacy, Asia Pacific
CFA Institute

Chan Fook Leong, CFA
Executive Director, Advocacy
CFA Society Singapore

[5] Coates, J., "SPACs, IPOs and Liability Risk under the Securities Laws", Securities and Exchange Commission, April 8, 2021, https://www.sec.gov/news/public-statement/spacs-ipos-liability-risk-under-securities-laws

RESPONSE TO CONSULTATION PAPER ON PROPOSED LISTING FRAMEWORK FOR SPECIAL PURPOSE ACQUISITION COMPANIES

Singapore Exchange Regulation invites comments on this consultation paper. Please send your responses through any of the following means:

Email	listingrules@sgx.com
Mail	Singapore Exchange Regulation 11 North Buona Vista Drive #06-07, The Metropolis Tower 2 Singapore 138589 (Attention: IPO Admissions)

Please include your full name and, where relevant, the organisation you are representing, as well as your email address or contact number so that we may contact you for clarification. Anonymous responses may be disregarded.

SGX may make public all or part of any written submission, and may disclose your identity. You may request confidential treatment for any part of the submission which is proprietary, confidential or commercially sensitive, by clearly marking such information. You may request not to be specifically identified.

Any policy or rule amendment may be subject to regulatory concurrence. For this purpose, you should note that notwithstanding any confidentiality request, we may share your response with the relevant regulator.

By sending a response, you are deemed to have consented to the collection, use and disclosure of personal data that is provided to us for the purpose of this consultation paper or other policy or rule proposals.

Please refer to the Consultation Paper for more details on the proposals.

Respondent's Information

Name(s)	For CFA Institute: 1. Mary Leung, CFA 2. Sivananth Ramachandran, CFA 3. Piotr Zembrowski, CFA For CFA Society Singapore: 1. Dexter Tiah, CFA 2. Gavin Loh Suan Hong, CFA 3. Lee Guan Liu, CFA 4. Yap Wern Sheng, CFA 5. Other contributors who wish to remain anonymous In preparation of this response, CFA Society Singapore and CFA Institute held two virtual roundtable discussions, on 19 and 20 April 2021, to gather insight and views from members of CFA Society Singapore and financial professionals with relevant expertise. CFA Society Singapore also gathered views from its members via an online survey. The insight gathered during those events informed our analysis of the relevant issues. The responses to the questions that follow are rooted in the principles of promoting market integrity and investor protection, which guide our advocacy efforts globally. They take into account relevant regulations and practices in other markets, while aiming to reflect the characteristics of the Singapore financial market and its prominent role in the region. Selected views offered by the participants in the virtual roundtable discussions are presented together with the response by CFA Society Singapore and CFA Institute, to reflect the breadth of opinions.
Organisation (if applicable)	CFA Institute and CFA Society Singapore
Email Address(es)	advocacy@cfasocietysingapore.org
Contact Number(s)	(65) 6323 6679
Statement of Interest	

Disclosure of Identity

Please check the box if you do not wish to be specifically identified as a respondent:

☐ I/We do not wish to be specifically identified as a respondent.

Consultation Questions

Question 1: Relevance of SPACs Framework

(a) Do you think that the introduction of a SPACs Framework will be beneficial to companies, investors and the Singapore capital market?

Please select one option:

☐ Yes

☐ No

Please give reasons for your view:

We believe that public investors in Singapore need to have diverse avenues to participate in the growth of the economy and that SPACs would add to this diversity. However, we also believe that market development should be balanced with investor protections and good corporate governance. Without such balance, there is potential for poor investor experience souring not just the future SPAC issuances, but investors' faith in capital markets as a whole.

Selected views of the participants in the virtual roundtables and the online survey:

Benefits (or perceived benefits) of various SPAC models:

1) SPACs offer an expedient route for companies to list, compared to a conventional IPO.
2) Companies that need a longer gestation period to turn profitable have one more avenue to raise capital and fund their growth.

Opportunities for SPACs in Singapore:

1) First mover advantage to capture unicorns in Asia. There are already SPACs in other countries looking closely at targets in Asia.
2) An opportunity to complement the technology ecosystem in Singapore with more financing options available for fintechs, start-ups, and unicorns.
3) Capitalising on the strength of Singapore as a listing destination with a robust regulatory regime. A cautious step forward in SPACs may mirror the success with S-REITs.
4) Competitive positioning of SGX among other exchanges in the region.

Concerns:

1) Strong investor protections are paramount to the success of the new SPAC listing framework.
2) Better alignment of interests among stakeholders is needed to eliminate or reduce moral hazard associated with the SPACs framework.
3) The level of maturity and sophistication of Singapore's retail investors, and their ability to understand the structure and the risks of SPACs.

(b) The proposed SPACs Framework will provide for a primary listing of SPACs on the Mainboard of SGX-ST. Do you think SPACs should be allowed to apply for a secondary listing on the Mainboard of SGX-ST?

Please select one option:
☒ Yes
☐ No

Please give reasons for your view:

A secondary listing should be allowed, as long as it is subject to the same rules of shareholder protection, corporate governance and others applicable to a primary listing. The secondary listing should not be a way to avoid stricter rules and take advantage of access to capital.

Selected views of the participants in the virtual roundtables and online survey:

1) Although another avenue for funding is welcome, its effect on diverting liquidity should be considered.
2) Since the primary listing IPO prospectus of a SPAC usually denotes the total fund size to be raised, it gives a sense of the size of the target that the SPAC may acquire. Additional funding through secondary listing changes that material information and could potentially be dilutive to shareholders.

Question 2: Definitions

Do you agree with the definitions of "business combination", "founding shareholder", "management team", "public", "resulting issuer" and "special purpose acquisition company" in Appendix 2 of the Consultation Paper?

Please select one option:
☒ Yes
☐ No

Please give reasons for your view:

A clarification is required of the definition of the fair market value of the target company, especially in cases when additional financing is required at the time of business combination, to make up the difference between the value of the target company and the cash held in the SPAC's escrow account.

Question 3: Additional Admission Criteria

Minimum Market Capitalisation

(a) In view of the unique characteristics and risks of SPACs and the recognition of the importance in ensuring the admission of SPACs which are backed by experienced and quality sponsors, do you agree that SPACs should satisfy a minimum market capitalisation requirement of S$300 million at the time of listing, based on the IPO issue price and post-invitation issued share capital? Alternatively, do you think that a higher minimum market capitalisation such as S$500 million should be imposed?

Please select one option:

☒ Yes

☐ No

Please give reasons for your view. You may suggest an appropriate minimum threshold and give reasons for your suggestion:

Selected views of the participants in the virtual roundtables and the online survey:

1) The general consensus is that a S$300 million minimum market capitalisation is preferred to a higher one, which might make it more difficult for sponsors to list on SGX, resulting in a smaller number of SPAC listings.
2) A minimum market cap requirement may unintentionally result in SPAC deals concentrated within certain capex-heavy industries, such as technology, where companies have higher values.

Public Float

(b) Do you agree with the requirement for a SPAC to have at least 25% of their total number of issued shares to be held by not less than 500 public shareholders at the time of listing?

Please select one option:

☐ Yes

☐ No

Please give reasons for your view. You may suggest an appropriate threshold and give reasons for your suggestion:

Minimum Issue Price

(c) Do you agree with a higher minimum issue price of S$10 per share or unit for the securities offered for the SPAC IPO?

Please select one option:
☒ Yes
☐ No

Please give reasons for your view. You may suggest an appropriate minimum issue price and give reasons for your suggestion:

Jurisdiction of Incorporation

(d) Do you agree that the SPAC should be incorporated in Singapore?

Please select one option:
☒ Yes
☐ No

Please give reasons for your view:

Singapore's robust legal and judicial system will be most appropriate for adjudicating legal issues arising in relation to SGX-listed entities.

Dual Class Share (DCS) Structure

(e) The Exchange seeks your views on whether the SPAC should be allowed to adopt a DCS structure at the time of listing.

Please give reasons for your view:

CFA institute is of the opinion that:

Company rules should ensure that ***shares that have the same economic benefits should have the same voting rights****. A structure that permits one group of shareowners to have disproportionate votes per share creates the potential for a minority shareowner to override the wishes of the majority of owners for personal interest. In cases in which such dual structures are legal, companies should disclose such arrangements and the situations, the manner, and the extent to which those arrangements may affect other shareowners.*

(For more information refer to the 2018 report by CFA Institute "Dual-Class Shares: The Good, the Bad, and the Ugly", available at: https://www.cfainstitute.org/-/media/documents/survey/apac-dual-class-shares-survey-report.ashx)

CFA Society Singapore also advocates for the principle "one share–one vote", as per its response to the SGX Public Consultation on Possible Listing Framework for Dual Class Share Structures, available at: https://cfasocietysingapore.org/wp-content/uploads/2020/02/CFA-Response-Dual-Class-Share-Consultation-Paper-17-Apr-2017.pdf

However, we also wish to reiterate that:

1) The DCS structure is allowed in Singapore, therefore at the merger phase, the SPAC may acquire a company with the DCS structure.

2) The DCS structure adds another layer of complexity to the already complex SPAC structure. It is not clear what value incorporating a DCS structure at the SPAC's IPO phase provides.

3) The sponsors have power to make strategic decisions such as choosing the target company for acquisition, and control significant operational issues, such as the cashflow. Allowing sponsors to exert even more power through a DCS structure would further reduce the influence of minority shareholders.

In summary, we believe the DCS structure should not be allowed at the time of the SPAC IPO. But in the interest of regulatory consistency, the DCS structure should be allowed at the time of merger, as it is for the conventional IPOs.

Others

(f) You may propose additional listing criteria and give reasons for your proposals:

Question 4: Suitability Assessment Factors of a SPAC

Do you agree with the suitability assessment factors listed in Appendix 2 of the Consultation Paper?

Please select one option:
☒ Yes
☐ No

Please give reasons for your view. You may suggest other factors which may be relevant in assessing the listing suitability of a SPAC, and give reasons for your suggestion:

The success of SPACs in Singapore may hinge on:

1) Sufficient incentives to motivate and attract quality sponsors with proven management teams. Such incentive should be viewed as a total package rather than stand-alone measures, such as tailoring of requirements and relaxation of certain rules.

2) Target companies must also be sufficiently incentivized to choose a sponsor in a jurisdiction that provides reasonable terms and a degree of certainty to the outcome of the business combination. Also see the response to question #15.

3) Investors – especially those who do not redeem their positions and stay the course – must not feel they have been put in a disadvantageous position.

Although the consultation paper talks about track record and the reputation of founding shareholders and the management team, we re-emphasize the importance of the quality and qualifications of the sponsors. The academic study "A Sober look at SPACs"[1] (also cited in the consultation paper) shows that post-merger returns of SPACs led by high-quality sponsors (defined as private equity managers and senior executives of Fortune 500 companies) were, on average, better than those led by celebrity-sponsors. We believe the exchange must take an active oversight role by rejecting IPOs from low-quality sponsors, and should consider providing additional guidance on the qualifications of the sponsor.

We believe there is further scope for SGX to articulate its expectations of sponsors in the new framework, including, for example, their experience in mergers and takeovers, their track record in previous SPACs or similar transactions, and the returns realized by their investors. Sponsors should be mandated to disclose the number of SPACs they are involved in concurrently, and if and how they will deal with potential conflicts of interest that may arise.

Question 5: Permitted Time Frame for Completion of Business Combination

(a) Do you agree that a SPAC must complete a business combination within a maximum time frame of 36 months from the date of listing?

Please select one option:

☐ Yes

☐ No

Please give reasons for your view. You may suggest an appropriate maximum time frame and give reasons for your suggestion:

Selected views of the participants in the virtual roundtables and the online survey:

1) The general consensus is that optimal maximum time frame for the completion of the business combination should be between 24 and 36 months.
2) The proponents of the shorter time frame perceived it as sufficient to complete a business combination, while providing some urgency to sponsors to look for a suitable target.
3) The proponents of the longer time frame stressed that it reduces the probability of rushed deals which run the risk of overpaying for a target.

[1] Klausner, M. D., Ohlrogge, M., and Ruan, E., "A Sober Look at SPACs", October 28, 2020. Yale Journal on Regulation, Forthcoming, Stanford Law and Economics Olin Working Paper No. 559, NYU Law and Economics Research Paper No. 20-48, European Corporate Governance Institute – Finance Working Paper No. 746/2021, https://ssrn.com/abstract=3720919 or http://dx.doi.org/10.2139/ssrn.3720919

(b) Based on market observations in other exchanges that permit the listing of SPACs, SPACs typically complete a business combination within 24 months from its listing. Do you agree that the maximum time frame for the SPAC to complete a business combination should be shortened to 24 months?

Please select one option:

☐ Yes

☐ No

Please give reasons for your view:

See the response to 5(a).

(c) Do you agree that SPACs may seek an extension of time to complete a business combination under exceptional circumstances?

Please select one option:

☒ Yes

☐ No

Please give reasons for your view. You may suggest possible scenarios that may qualify as an exceptional circumstance, and give the reasons for your suggestion:

The acquisition process is highly uncertain and it is not uncommon for negotiations to fail.

An extension could be warranted in the following cases:

1) It is limited to a one-time extension with shareholders' and SGX's approval.
2) The acquisition process is in progress. This could occur if the SPAC acquires a target in the final year of its permitted period, but the relevant parties are for the closing conditions to be satisfied. (They could potentially just be customary conditions, such as transfer of licenses). Larger and more complicated acquisitions can take more than 12 months from the start of negotiations.

(d) Do you agree that a SPAC should be allowed to seek independent shareholders' and SGX's approval for an extension of time under specified circumstances in its constitution?

Please select one option:

☐ Yes

☐ No

Please give reasons for your view:

(e) Do you agree that a time extension to complete the business combination must be approved by a special resolution passed by independent shareholders?

Please select one option:
☒ Yes
☐ No

Please give reasons for your view:

Since the incentives for the sponsor to find a target for merger are skewed (with significant downside if a deal is not found), independent shareholders should be afforded an opportunity to evaluate whether it makes sense to wait or exit, based on specific circumstances.

(f) To ensure that shareholders are kept informed in a timely manner, do you agree that the SPAC should at least provide quarterly SGXNet announcements to update shareholders of its cash utilization and its progress in securing a business combination?

Please select one option:
☒ Yes
☐ No

Please give reasons for your view. You may suggest a reasonable frequency for the updates and give reasons for your suggestion:

Investors value communication and transparency. Boiler plate responses should be avoided.

(g) You may provide suggestions on the information to be contained in the SGXNet announcement updates to shareholders and give reasons for your suggestion:

Question 6: Minimum Percentage of IPO Proceeds Held in an Escrow Account

(a) Do you agree that SPACs should place at least 90% of the gross proceeds raised from its IPO in an escrow account?

Please select one option:
☒ Yes
☐ No

Please give reasons for your view. You may suggest an appropriate minimum threshold and give reasons for your suggestion:

This limits the amount of funds at risk from potential misuse by the sponsor.

(b) Do you agree with allowing escrowed funds to be used for permitted investments and the scope of permitted investments for which the SPAC may invest the escrowed funds in?

Please select one option:
☒ Yes
☐ No

Please give reasons for your view:

Escrow funds can be invested, however permitted investments should be safe and liquid. Access to these funds is needed for acquiring a target company. The easy availability of these funds provides security to the SPACs process, which is a critical factor when targets choose which sponsor to work with.

(c) Do you agree that where there are other exceptional circumstances that warrant a draw down from the escrow account, the SPAC may seek independent shareholders' approval by way of a special resolution and SGX's approval for such draw down?

Please select one option:
☐ Yes
☐ No

Please give reasons for your view:

(d) The escrowed funds generally cannot be drawn down except upon completion of a qualifying business combination or liquidation of a SPAC. Do you agree with the proposal to allow the SPAC to draw down the interest earned and income derived from the escrowed funds for payment of the administrative expenses incurred by the SPAC in connection with the IPO, the SPAC's general working capital expenses and for the purposes of identifying and completing a business combination?

Please select one option:
☐ Yes
☐ No

Please give reasons for your view:

Question 7: Fair Market Value of the Target Company Relative to the Amount in Escrow Account

(a) Do you agree that the fair market value of the SPAC's initial acquisition should amount to at least 80% of the amount held in the escrow account (excluding amounts held in the escrow account representing deferred underwriting commission and any taxes payable on the income earned on the escrowed funds) at the time the binding agreement for the business combination transaction is entered into?

Please select one option:
☐ Yes
☐ No

Please give reasons for your view. You may suggest an appropriate minimum threshold and give reasons for your suggestion:

(b) Do you agree that SPACs may consummate multiple concurrent acquisitions as part of the business combination, however 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 held in the escrow account at the time of entry into the binding agreements for the business combination transactions, and such concurrent transactions must be inter-conditional and completed simultaneously within the permitted time frame?

Please select one option:
☐ Yes
☐ No

Please give reasons for your view:

(c) Do you agree that the SPAC should be required to appoint an independent valuer to value the target business(es) or asset(s) to be acquired under the business combination?

Please select one option:
☐ Yes
☐ No

Please give reasons for your view:

Instead of a hard-coded requirement, this can be encouraged as a best practice guidance. It is more important that if an independent valuer is appointed, he or she be appointed by, and answerable to, the independent directors of the SPAC. Independent directors should have an enhanced governance role in SPACs and independent shareholders should have a greater say in their nomination and appointment.

(d) You may suggest other requirements as measures to safeguard investors' interests against prejudicial business combination terms, and give reasons for your suggestion:

Question 8: Minimum Equity Participation

(a) Do you think there should be a requisite minimum equity participation of the founding shareholders and the management team at the time of the SPAC IPO to align their interests with other shareholders?

Please select one option:

☒ Yes

☐ No

Please give reasons for your view:

Left to the free market, we believe that most founding shareholders and management teams will not put up personal funds in the SPAC. Hence, regulatory requirement is necessary to align interest of stakeholders and to temper moral hazards associated with SPACs.

The amount of the requisite minimum equity participation should be substantial enough to align the interests of the sponsors and the investors.

(b) You may suggest other requirements as measures to align the interests of the founding shareholders and the management team, with that of other shareholders, and give reasons for your suggestion:

We note that a regulatory mandate for equity participation by sponsors is a unique feature of the SGX SPAC framework, along with the proposed extended moratorium and restriction from voting on the merger. This is a powerful combination of safeguards but may deter prospective sponsors. Perhaps one possible flexibility is to allow for a lower minimum equity participation if sponsors are tied to long term warrants, or even eliminate the equity participation entirely if the entire remuneration for the sponsors is tied to shareholder value creation and can only be realized two or three years after merger.

Question 9: Period of Moratorium

(a) To align interests of the key persons of the SPAC and resulting issuer[2] with that of other shareholders, the Exchange seeks your views on the moratorium to be observed following (i) the SPAC's IPO; and (ii) the business combination.

Please give reasons for your view:

We believe there should be a moratorium for sponsors and key persons between the SPAC IPO and the business combination, and a moratorium period of 12 months following the business combination. Sponsors need to demonstrate commitment to the long-term success of the post-merger entity, and a 12-month moratorium is a bare minimum from that perspective.

(b) As a SPAC may have secured investments/funding from pre-IPO investors prior to its listing on the Mainboard of SGX-ST, the Exchange seeks your views on whether pre-IPO investors should be subjected to a moratorium based on the cash formula under Mainboard Rule 229 from the date of the SPAC's listing until the completion of the business combination.

Please select one option:
☐ Yes
☐ No

Please give reasons for your view:

Question 10: Approval(s) Required for Business Combination

(a) Do you agree with the requirement for the business combination to be respectively approved by (i) a simple majority of independent directors' approval; and (ii) an ordinary resolution passed by independent shareholders at a general meeting to be convened?

Please select one option:
☒ Yes
☐ No

Please give reasons for your view:

We are in general agreement with the above.

[2] The key persons are (a) the SPAC's founding shareholders, the management team and their respective associates; and (b) the controlling shareholders and their associates, and the executive directors of the resulting issuer with an interest in 5% or more of the issued share capital.

(b) Do you agree that the founding shareholders, the management team, and their respective associates should not be permitted to vote on the business combination?

Please select one option:
☒ Yes
☐ No

Please give reasons for your view:

There will likely be conflict of interest. Hence, they should be excluded from voting.

Question 11: Redemption and Liquidation Distribution Rights of Shareholders

(a) Do you agree that independent shareholders who vote for the business combination and those who had not participated in the vote for the business combination, should not be permitted to exercise their Redemption Right?

Please select one option:
☒ Yes
☐ No

Please give reasons for your view:

The reason why shareholders vote for the resolution and then redeem is two-fold: one is a general desire to see the merger succeed, and the other is to realise the value of the warrants, which would be worthless if the merger fails. Therefore, even when investors know a deal is bad, there is an incentive to vote for it. Tying the voting decision to the redemption decision would reduce these conflicts, and the resulting costs of dilution for remaining investors.

(b) As an alternative to mitigate concerns of dilution risks to the remaining shareholders of the resulting issuer arising from high redemption rates at the vote for the business combination, the Exchange seeks your views on requiring the SPAC to establish a limit on the exercise of Redemption Right by independent shareholders who voted for the business combination.

Please give reasons for your view. You may suggest an appropriate limit and give reasons for your suggestion:

(c) You may suggest other requirements as measures to increase investor protection against high redemption rates at the time of the business combination and give reasons for your suggestion:

(d) As a SPAC may have secured investments/funding from pre-IPO investors prior to its listing on the Mainboard of SGX-ST, the Exchange seeks your views on whether pre-IPO investors are allowed to participate in the liquidation distribution in respect of shares purchased by them prior to the SPAC's IPO.

Please select one option:

☐ Yes

☐ No

Please give reasons for your view:

Pre-IPO investors must be allowed to participate in the distribution, as long as the funding is on the same terms as that of other investors, and the priority is only with respect to order of participation. If they participated on different (more attractive) terms, they must bear the risks associated with their investment, and not be allowed to participate in redemption.

Question 12: Requirement to Mitigate Dilution to Shareholders Remaining with the Resulting Issuer

The Exchange seeks your views on the following options to address the regulatory concern where the future exercisability of warrants (or other convertible securities) after the SPAC's business combination may result in potential significant dilutive impact to shareholders remaining with the resulting issuer:

Option 1: Require warrants (or other convertible securities) to be non-detachable from the underlying ordinary shares of the SPAC, for trading on the Mainboard of SGX-ST.

Option 2: Impose a maximum percentage cap on the resultant dilutive impact to shareholders (based on issued share capital of the SPAC at IPO) post-business combination arising specifically from the conversion of issued warrants (or other convertible securities) by the SPAC.

Please give reasons for your view. For Option 2, you may propose an appropriate maximum threshold and give the reasons for your suggestion:

Participants in the virtual roundtables prefer Option 2 since detachable warrants are very much a prevailing concept in SPACs (and elsewhere), and it may be too risky to alter this element of the structure.

You may suggest other requirements as measures to increase investor protection against significant dilutive impact arising from conversion of warrants (or other convertible securities) issued by the SPAC with the ordinary shares at IPO, and give reasons for your suggestion:

Bill Ackman's Pershing Square Tontine Holdings (PTSH) uses an innovative tontine structure where not only the warrants' allocation is lower to begin with ($1/9^{th}$ of a warrant for each share), but the warrants of redeeming shareholders are transferred to surviving shareholders. Transferring a portion of warrants from redeeming to non-redeeming shareholders might be a simpler alternative to Option 2, and may incentivize investors to stay on.

PTSH has other attractive features. Instead of promote, sponsors acquire sponsor warrants, with a strike price 20% above the share price at the IPO, which are not saleable or exercisable until three years after the merger. Therefore, the sponsors only make money if they generate at least 20% returns for the shareholders within the first 10 years (term of the warrants). Markets have assigned a high value to the structure and attractive investor protection features, by consistently trading above the issue price of $20.

Question 13: Event of Material Change Occurring Prior to Completion of Business Combination

(a) Do you agree with the requirement for the SPAC to put in place a Liquidation Mechanism in the Event of Material Change occurring prior to the business combination?

Please select one option:

☐ Yes

☐ No

Please give reasons for your view:

(b) You may suggest any other appropriate events that should constitute as an Event of Material Change thereby triggering a Liquidation Mechanism, and give reasons for your suggestion:

Question 14: Limit on Sponsor's Promote

Do you agree that a limit on the sponsor's promote is unnecessary in light of the other safeguards proposed to align the interests of independent shareholders with the founding shareholders and the management team of the SPAC?

Please give reasons for your view. You may suggest an appropriate percentage limit and/or the nature of the sponsor's promote, and give reasons for your suggestion:

A limit of 20%, similar to the typical SPAC structure, in addition to other investor protection measures is acceptable to us.

The consultation paper rightly points out that promote is an "incentive tied to deal completion rather than the long-term success of any business combination". An alternative approach to better align the compensation of the sponsor to the long-term success of business combination is to grant promote in a combination of warrants and shares, with warrants as the preferred instrument over shares for better alignment of interest. The warrants can be structured to partly pay out when the merger is approved, with the rest subject to post-merger shareholder value creation. The idea that promote is tied to both merger and post-merger success resonated among market participants we spoke to.

Question 15: Requirement for the Resulting Issuer to Meet Initial Listing Requirements

(a) Do you agree that the resulting issuer should be required to meet the applicable initial listing requirements under Chapter 2 of the Mainboard Rules under the proposed Rule 210(11)(l)(vi)?

Please select one option:
☒ Yes
☐ No

Please give reasons for your view:

Selected views of the participants in the virtual roundtables and online survey:

1. The success of SPACs in Singapore could boil down to a delicate balance between listing requirements, investor protection measures, and incentives. Although stringent requirements may appear attractive at the design and conceptualization phase of the regulatory framework, they may not be welcomed by the market, with quality sponsors and targets choosing to operate on other exchanges.

2. On the other hand, requirements that are too lenient may see initial success, but may lead to a situation that is not sustainable. The US SEC has recently undertaken efforts to provide additional guidance to issuers and investors, aimed at reducing regulatory arbitrage (real or perceived) and ensuring that safe harbours and liabilities are understood properly.[3]

3. If firms could meet the requirements of a conventional IPO, they would not need the SPAC route. Hence, SGX should expect firms seeking to list via the SPAC route to be "less than perfect" and examine them more closely on a case-by-case basis, noting that intangibles form a bigger percentage of firm value than they did in the 1990s. In short, we should not expect "perfect" targets, but we should not give a free passage to regulatory arbitrage.

(b) If your answer is no to (a), the Exchange seeks your views on whether the resulting issuer should nonetheless be required to meet the qualitative initial listing requirements under Chapter 2 of the Mainboard Rules including Mainboard Rule 210(5) on the character and integrity of directors, executive officers and controlling shareholders, Mainboard Rule 223 on the resolution of conflicts of interests, as well as Mainboard Rules 210(8) and 210(9) for a business combination involving a life science company and a mineral, oil and gas company, respectively, upon completion of the business combination.

Please select one option:
☐ Yes
☐ No

Please give reasons for your view:

[3] SEC. April 2021. SPACs, IPOs and Liability Risk under the Securities Laws. https://www.sec.gov/news/public-statement/spacs-ipos-liability-risk-under-securities-laws

(c) You may suggest other alternative proposals to obtain a certain level of assurance on the quality of the business combination, and give reasons for your suggestion:

Requirement to Appoint a Financial Advisor for the Business Combination

(d) Do you agree with the requirement for the SPAC to appoint a financial adviser to advise on the business combination transaction and in advising the SPAC, the financial adviser is expected to take guidance from the ABS Listings Due Diligence Guidelines?

Please select one option:
☐ Yes
☐ No

Please give reasons for your view:

(e) The Exchange seeks your views on whether requiring the appointment of the financial adviser to be approved by an ordinary resolution passed by the independent shareholders of the SPAC is appropriate.

Please give reasons for your view:

As with the appointment of an independent valuer, our view is that instead of a hard coded requirement, the appointment of a financial advisor can be encouraged as a best practice guidance. What is more important is that they are appointed by and answerable to the independent directors of the SPAC. Independent directors should have an enhanced governance role in SPACs and independent shareholders should have a greater say in their nomination and appointment.

Full and True Disclosure in the Circular in relation to the Business Combination

(f) The Exchange seeks your views on the proposal to require the SPAC's founding shareholders and directors, the proposed directors of the resulting issuer, and the financial adviser to provide a statement in the Circular accepting responsibility for the disclosures in the Circular relating to the business combination, and target business(es) and/or asset(s).

Please give reasons for your view:

We welcome this requirement. This is consistent practice in a mature disclosure-based regime.

Question 16: Other Proposed Rules

(a) The Exchange seeks your views on the other proposed SPAC rules set out in Appendix 2 of the Consultation Paper for which comments are not specifically sought for in Questions 1 to 15.

Please give reasons for your view:

We wish to offer additional comments on the disclosure requirements both in the initial prospectus, and before the business combination. We feel the consultation paper has captured all the elements of disclosures well, but we want to emphasize the need for clarity and ease of understanding.

For example, it is difficult even for seasoned investors to figure out the dilutive nature of the terms of SPAC. Issuers may consider providing illustrations on how dilution may occur under different redemption scenarios – say at 10%, 25%, or 50% – or a combination of redemptions and PIPE deals, and under other terms, such as forward purchase agreement or side deals. The disclosure should explain how that dilution may impact post-merger returns. We are concerned that boilerplate disclosures would only confuse rather than inform investors.

(b) You may propose any other approach and consideration that is relevant to establishing an effective SPACs Framework, and explain how your proposal is appropriate and reasonable: