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UK SPAC Update – FCA Final Rules Published

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On the 27th of July this year, the UK Financial Conduct Authority (the "FCA") published a policy statement setting out its final rules and changes to its listing rules for certain special purpose acquisition companies, or '**SPACs**'. These follow the government's review of the UK listing regulations led by Lord Johnathan Hill earlier in the year, discussed in Cohen & Gresser's 7 May 2021 client alert. In its announcement accompanying the policy statement, the FCA explained that the new rules and associated guidance, which will come into force on 10 August 2021, are intended to "*provide more flexibility to larger SPACs, provided they embed certain features that promote investor protection and the smooth operation of the UK's markets*."

The announced changes are twofold, with some amendments introduced to facilitate more UK listings, but others implemented as a counterbalance to enhance investor protection and the smooth operation of the market.

The key changes from the first category, i.e. those intended to encourage greater investment in UK SPACs, are to:

1. remove the presumption of suspension of trading at the point at which a potential acquisition is identified, subject to certain requirements (see below);
2. lower the minimum amount a SPAC would need to raise at its initial listing from £200 million to £100 million in order to avoid suspension on the identification of a target acquisition;
3. in limited circumstances – and in order to provide more time for a SPAC to conclude a reverse merger where a transaction is well advance – introduce an option to extend the proposed 2-year time-limited operating period (or 3-year period if shareholders have approved a 12-month extension) by 6 months, without the need for shareholder approval; and
4. modify the FCA's supervisory approach to provide more comfort prior to admission to listing that an issuer is within the guidance which disapplies the presumption of suspension.

The second category of changes, that is, the investor safeguards which the FCA will require SPACs to provide in order to benefit from the new expanded rules, include:

1. a 'redemption' option allowing investors to exit a SPAC prior to any acquisition being completed;
2. ensuring money raised from public shareholders is ring-fenced to either fund an acquisition, or be returned to investors (in the event of investors redeeming shares or if a SPAC winds-up), less any amounts specifically agreed to be used for a SPAC's running costs;
3. requiring shareholder approval for any proposed acquisition; and
4. a time limit on a SPAC's operating period if no acquisition is completed.

It is too early to predict the likely impact of these changes. As noted in Cohen & Gresser's previous client alert, some commentators are already concerned of a SPAC bubble, referring to the large number of SPACs already established and the fear in the market of a paucity of appropriate acquisition targets. However, to date most current SPACs have been established in the U.S., and the UK SPAC landscape may yet experience significant growth, particularly once the regime has been amended to reflect the above changes identified as key by Lord Hill's review. As previously indicated, we believe an impressive and credible sponsor team or substantive expertise will likely be even more important to attract suitable investment and support for any future SPACs in the UK.

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