

Singapore Exchange Consults on Proposed Listing Framework for SPACs

The proposal covers broad admission criteria; conditions for founding shareholders, the management team, and controlling shareholders; and business combination requirements.

On 31 March, the Singapore Exchange (SGX) published a [consultation paper](#) proposing a primary listing framework for special purpose acquisition companies (SPACs) to list on the Mainboard of the Singapore Exchange Securities Trading Limited (Mainboard) (SPAC Framework).

The SPAC Framework aims to propose a balanced regime that safeguards investors' interests against specific concerns surrounding features of SPACs, while also meeting capital-raising needs in the market. The proposal covers the broad admission criteria for a SPAC listing; conditions for founding shareholders, the management team, and controlling shareholders; and the business combination requirements.

Broad Admission Criteria

General Proposal

Under the SPAC Framework, the broad admission criteria for a SPAC listing on the Mainboard includes the following requirements.

- The SPAC listing must have a minimum S\$300 million market capitalisation. Alternatively, SGX suggests that a higher market capitalisation of S\$500 million may be proposed given the importance of the market capitalisation in ensuring that the SPAC is backed by quality sponsors and a management team with a proven track record, as well as to facilitate consummation of a quality and sizeable business combination. However, SGX notes that such an increase could limit the number of potential targets for the business combination.
- At least 25% of the total number of issued shares must be held by at least 500 public shareholders at the time of the initial public offering (IPO), in line with other current Mainboard requirements.
- The IPO price must be a minimum of S\$10 a share, increased from the current minimum issue price of S\$0.50 per share, to encourage retail investors to carefully consider the unique risks of a SPAC listing.

- The SPAC must be incorporated in Singapore to ensure compliance with Singapore company and securities laws.
- The SPAC cannot have a dual-class structure (DCS) at the time of the IPO.
- At least 90% of the IPO proceeds must be placed in escrow pending the business combination. These proceeds may be invested and drawn down prior to the completion of a business completion only in limited circumstances for interest earned and income derived from the amount placed in the escrow account, or on the occurrence of a key event with special resolution of the independent shareholders and SGX approval. Cash will be returned on a pro rata basis from the amount in escrow to any shareholder voting against the business combination or upon the liquidation of the SPAC.

Suitability Assessment

In assessing the suitability of a SPAC for listing, SGX will consider the following factors in relation to the founding shareholders and management team, including but not limited to:

- The profile and repute, experience, and expertise of the team
- The nature and extent of compensation
- The extent of equity ownership in the SPAC
- The alignment of interests with those of other shareholders

SGX will also consider factors including but not limited to:

- The amount of time permitted for completion of the business combination prior to liquidation distribution
- The dilutive features and events
- The percentage of the amount to be held in escrow representing the fair market value of the business combination
- Such other factors SGX believes protect investors and promotes public interest

Warrants and Other Convertible Securities

SGX proposes that 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. This proposal aims to mitigate the potentially significant dilutive effects to shareholders and protect the economic value of shareholders' investments.

However, this approach is not in line with market norms and may diminish the traditional advantage to SPAC investors to compensate for investment opportunity cost. So as an alternative, SGX is considering imposing a maximum percentage cap on the resultant dilutive impact to shareholders arising specifically from the conversion of issued warrants (or other convertible securities) after the business combination.

Conditions for Founding Shareholders, Management Team, and Controlling Shareholders

Minimum Equity Participation

To align the economic interests of the founding shareholders and the management team with those of the other shareholders, founding shareholders and the management team must hold minimum equity at IPO of:

- S\$10 million, if the market capitalisation of the SPAC is at least S\$300 million but less than S\$500 million
- S\$15 million, if the market capitalisation of the SPAC is at least S\$500 million but less than S\$1 billion
- S\$ 20 million, if the market capitalisation of the SPAC is at least S\$1 billion

Moratorium

The founding shareholders, the management team, the controlling shareholders, and each of their respective associates are subject to a moratorium on the transfer or disposal of all or part of their direct and indirect effective shareholding interest held in the SPAC as at the date of the SPAC's listing until the completion of the business combination. For at least six months from the date of the completion of the business combination, the resultant combined entity that trades on the SGX-ST upon the completion of a business combination by a SPAC, with an interest in 5% or more of the issued share capital, is to observe a moratorium on the transfer or disposal of all or part of their direct and indirect effective shareholding interest held in the resulting issuer. The resultant combined entity includes:

- The SPAC's founding shareholders, the management team, and each of their respective associates
- The controlling shareholders and their associates
- The executive directors of the resulting issuer

Business Combination Requirements

The general requirements are:

- The business combination must be completed within three years of the IPO.
- The business combination must comprise at least one principal core business with a fair market value forming at least 80% of the gross amount held in the escrow account, to ensure that the SPAC has a sizeable and identifiable core business of which it has majority ownership and management control.
- The resulting business combination must meet the initial Mainboard listing criteria.
- The business combination can only proceed with approval from a simple majority of the SPAC's independent directors and a simple majority of the independent shareholders. The founding shareholders, the management team, and each of their respective associates will not be considered independent.
- Only independent shareholders who vote against the business combination have the right to redeem their ordinary shares in pro rata proportion of the escrow amount in cash, if the business combination is approved and completed. This requirement aims to mitigate concerns of high redemption rates leading to additional financing being brought in for completion of the business acquisition, causing dilution to existing shareholders.

Liquidation Distributions

Liquidation of the SPAC may occur under certain conditions, including if:

- Completion of the business combination is not completed within the permitted period.
- Either of the following occurs:
 - There is a material change in the profile of the founding shareholders and/or management team critical to the successful founding of the SPAC
 - The management team of the SPAC resigns and/or is replaced for reasons not due to natural cessation events (e.g., death, incapacity, illness), unless approval by a special resolution of the independent shareholders is obtained
- Completion of the business combination either occurs prior to the consummation of the business combination, or does not occur within the permitted period.

On the occurrence of the above events, the SPAC shall be liquidated. Remaining funds in escrow (net of taxes payable and direct expenses related to the liquidation distribution, but including interest, income derived, and deferred underwriting commissions accrued in the escrow account) shall be returned and distributed in cash. Founding shareholders, the management team, and each of their respective associates must waive their rights to participate in any liquidation distribution in respect of shares acquired and held at the time of the IPO.

Other Investor Protection Safeguards

The issuer must meet existing listing requirements under Chapter 2 of the Mainboard Rules, and other relevant requirements such as Mainboard Rule 210(10) if the resulting issuer adopts a DCS structure and Mainboard Rule 210(2)(c) for non-profitable companies. The existing Chapter 2 Mainboard Rules require issuers to:

- Appoint an accredited Issue Manager as Financial Advisor to advise on the business combination
- Appoint an independent valuer to value the target company, whose report shall be appended to the shareholders' circular to approve the business combination (Circular) to protect interests of individual shareholders against prejudicial terms and facilitate assessment of the business combination
- Provide a Circular containing prospectus-level disclosures, including in key areas such as:
 - Financial position and operating control
 - Character and integrity of the incoming directors and management
 - Compliance history
 - Material licences, permits, and approvals required to operate the business
 - Resolution of conflicts of interests

Other Considerations

There is no limit on the SPAC sponsors' entitlement to additional equity securities in the SPAC at nominal or no consideration in return for sponsoring the SPAC (i.e., the promote). While this approach will reinforce the alignment of interests between founding and other shareholders, the SGX is of the opinion that other proposed safeguards are sufficient to align interests.

More broadly, SGX also seeks general comments on:

- Whether the introduction of a SPAC Framework will be beneficial to companies, investors, and the Singapore capital market
- If SPACs should be allowed to apply for a secondary listing on the Mainboard
- The scope of the definitions for “business combination”, “founding shareholder”, “management team”, “public”, “resulting issuer”, and “special purpose acquisition company” as used in the proposed amendments to Mainboard Rules
- Any additional proposed amendments to the Mainboard Rules

For interest, this *Client Alert* sets out in the Appendix a high-level comparison between the SGX proposed SPAC listing requirements and SPAC listing requirements in the United States.

Next Steps

The deadline for responses for the consultations is 28 April 2021. Various stakeholders should now consider whether a SPAC listing on the Mainboard as a new listing vehicle is a viable alternative to the traditional IPO for fundraising in Singapore and the region, should SGX proceed with the changes to the Mainboard Rules being consulted on — including sponsors interested in tapping public capital through a SPAC entity, potential target companies for the business combination, and potential investors seeking to co-invest with experienced sponsors.

Appendix

Proposed SGX SPAC Framework vs. NASDAQ and NYSE Frameworks

	Proposed SGX SPAC Framework	NASDAQ SPAC Listings	NYSE SPAC Listings
Minimum Market Capitalisation	S\$300 million	On the NASDAQ Global Market, US\$75 million On the NASDAQ Capital Market, US\$50 million <i>NASDAQ Stock Market, Rules 5405(b)(3)(A) & 5505(b)(2)(A)</i>	On NYSE, US\$100 million and market value of publicly-held shares of \$80 million On NYSE American, US\$50 million and aggregate market value of publicly held shares of \$15 million <i>NYSE Listed Company Manual, Section 102.06 and NYSE American Company Guide, Section 101(c)</i>
Minimum Distribution Requirement	At least 25% of the total number of issued shares to be held by at least 500 public shareholders	On the NASDAQ Global Market, 1.1 million unrestricted publicly held shares and at least 400 round lot holders (at least 50% holding shares with market value of at least \$2,500) On the NASDAQ Capital Market, 1 million unrestricted publicly held shares and at least 300 round lot holders (at least 50% holding shares with market value of at least \$2,500) <i>NASDAQ Stock Market, Rules 5405(a)(3) and 5505(a)(1)(A))</i>	On NYSE, 1.1 million shares publicly held with a minimum of 300 public shareholders On NYSE American, 1 million shares publicly held with a minimum of 400 public shareholders or 0.5 million shares publicly held with a minimum of 800 public shareholders <i>NYSE Listed Company Manual, Section 102.06 and NYSE American Company Guide, Section 102(a)</i>
Bid Price	S\$10 per share	US\$4 per share <i>NASDAQ Stock Market, Rules 5405(a)(1) and 5505(a)(3)</i>	On NYSE American, US\$2 or US\$3 per share, depending on the listing standard <i>NYSE American Company Guide, Section 102(a)</i>
Time Period / Escrow Account	<ul style="list-style-type: none"> Business combination must be completed within three years of SPAC IPO 90% of the gross proceeds raised at IPO must be deposited in an escrow account Business combination must comprise at least one principal core business with a fair market value forming at least 80% 	<ul style="list-style-type: none"> Business combination must be completed within three years of SPAC IPO 90% of the gross proceeds raised at IPO must be deposited in a trust, escrow or deposit account Business combination must comprise at least one principal core business with a fair market value forming at least 80% of the 	<ul style="list-style-type: none"> Business combination must be completed within three years of SPAC IPO 90% of the gross proceeds raised at IPO must be deposited in a trust account Business combination must comprise at least one principal core business with a fair market value forming at least 80% of the net assets

	of the value of the escrow account	value of the deposit account (excluding any deferred underwriters fees and taxes payable on the income earned on the deposit account) <i>NASDAQ Stock Market, IM-5101-2(a) & (b)</i>	held in trust (net of amounts disbursed to management for working capital purposes and excluding the amount of any deferred underwriting discount held in trust) <ul style="list-style-type: none"> Closing price of at least \$4 per share (NYSE) Aggregate market value of \$100 million, market value of publicly-held shares of \$80 million and meet certain distribution criteria (NYSE) <i>NYSE Listed Company Manual, Section 102.06 and NYSE American Company Guide, Sections 119(a) & (b)</i>
Approval for Business Combination	Simple majority approval of the independent directors and of shareholders	Majority approval of the independent directors and of shareholders <i>NASDAQ Stock Market, IM-5101-2(c) & (d)</i>	Majority approval of the independent directors and of shareholders <i>NYSE Listed Company Manual, Sections 102.06(a) & (d) and NYSE American Company Guide, Sections 119(c) & (d)</i>
Redemption Rights	Only independent shareholders who vote against the business combination, other than founding shareholders, the management team, and each of their respective associates.	All shareholders voting against the business combination other than sponsor, founding shareholders, directors, officers, family members or affiliates of any of the foregoing persons, and beneficial holders of more than 10% of the total shares outstanding <i>NASDAQ Stock Market, IM-5101-2(d)</i> Commonly extended to shareholders who vote for the business combination	All shareholders voting against the business combination other than sponsor, founding shareholders, directors, officers, family members or affiliates of any of the foregoing persons, and beneficial holders of more than 10% of the total shares outstanding <i>NYSE Listed Company Manual, Section 102.06(b) and NYSE American Company Guide, Section 119(d)</i> Commonly extended to shareholders who vote for the business combination
Liquidation Proceedings	All shareholders, excluding founding shareholders, the management team, and each of their respective associates	Suspension or termination of listing at the discretion of Nasdaq after liquidation authorized by the SPAC board <i>NASDAQ Stock Market, IM-5110</i>	Delisting procedures commence promptly after three years or time specified in constitutive documents for a business combination (whichever is shorter) Founding shareholders must waive rights to participate in any liquidation distribution

			<p>with respect to all shares of common stock owned by each of them prior to the IPO or purchased in any private placement occurring in conjunction with the IPO, including the common stock underlying any founders' warrants. In addition, the underwriters of the IPO must agree to waive their rights to any deferred underwriting discount deposited in the trust account in the event the AC liquidates prior to the completion of a Business Combination.</p> <p><i>NYSE Listed Company Manual, Section 102.06(f)</i></p>
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