



Hong Kong

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SINGAPORE EXCHANGE INTRODUCES SPAC LISTING FRAMEWORK

On 2 September 2021, the Singapore Exchange (SGX) announced¹ new rules to enable Special Purpose Acquisition Companies (SPACs) to list on the Mainboard of Singapore Exchange Securities Trading Limited (SGX Mainboard). The rules took effect on 3 September 2021, making the SGX the first exchange in Asia to allow SPAC listings.

Singapore first considered allowing SPACs to list in January 2010, but shelved the proposals in response to market feedback at the time. Interest in listing so-called blank cheque companies revived in the wake of the popularity of SPACs in the United States and the SGX issued its consultation paper² proposing a listing framework for SPACs in March 2021 and its response to comments on the consultation paper³ on 2 September 2021.

With the relaxation of some of the original proposals and the halving of the originally proposed S\$300 million (USD223.5 million) minimum market capitalisation, the SGX will be hoping to offer SPACs an alternative listing venue to the US bourses. The new framework may also revive interest in Singapore's lagging IPO market which saw only 3 IPOs raising USD107 million in the first half of 2021 compared to Hong Kong which saw 46 IPOs raising USD27.4 billion in the same period.⁴

The following provides a summary of the key features of SGX's framework for SPAC listings. As Hong Kong lawyers, Charltons is not qualified to advise on Singapore law and the following represents our understanding of the SGX's requirements.

The SGX SPAC Framework

SPACs are typically listed on stock exchanges as companies with no prior operating history, revenue generating business, or assets at the time of listing. They are formed to raise capital through IPOs for acquiring operating businesses or assets. SPACs are generally established and initially financed by experienced founding shareholders (typically referred to as sponsors). Investors' investment in SPACs is based on the proven track record of the sponsors and the management team of the SPAC, as well as the profile of the founding shareholders.

The following summarises the key requirements for listing under the SGX SPAC framework.

1. S\$150 Million Minimum Market Capitalisation Requirement for SPACs

After considering market feedback, the SGX reduced the minimum market capitalisation required to S\$150 million (approx. USD111.8 million) from S\$300 million (USD223.5 million) as proposed in the consultation paper. A SPAC therefore must satisfy a quantitative admission criterion of a minimum market capitalisation of S\$150 million (USD111.8 million) based on the IPO issue price and post-invitation issued share capital.

1 <https://www.sgx.com/media-centre/20210902-sgx-introduces-spac-listing-framework>

2 <https://api2.sgx.com/sites/default/files/2021-03/Consultation%20Paper%20on%20Proposed%20Listing%20Framework%20for%20Special%20Purpose%20Acquisition%20Companies.pdf>

3 <https://api2.sgx.com/sites/default/files/2021-09/Response%20Paper%20on%20Proposed%20Listing%20Framework%20for%20Special%20Purpose%20Acquisition%20Companies.pdf>

4 EY Global IPO Trends report Q2 2021

SGX's rationale for the change is that this amount will be sufficient to facilitate the consummation of a quality and sizable business combination. The amount is also comparable to standard IPOs.

2. Business Combination must take place within 24 Months of IPO, with an Extension of up to 12 Months on Meeting Prescribed Conditions

Although most respondents agreed with a 36 month timeframe for a SPAC to complete its business combination after listing, SGX believes 24 months is more in line with typical market practice⁵ and encourages SPACs to not hold onto shareholders' investments in escrow for a prolonged period of time.

However, the 24 month period can be extended in two ways:

- **An automatic extension** of up to 12 months will be granted when a binding agreement for the business combination has been entered into before the end of the 24-month and the SPAC needs more than 24 months to complete the business combination. The purpose of the automatic extension is to allow SPACs to concentrate on due diligence and completing the business combination without the uncertainty of having to obtain shareholders' approval for the time extension.
- **An extension with approval from SGX and shareholders** is possible if the SPAC has not entered into a binding agreement for the business combination by the end of the 24th month and wants more time to identify a suitable business combination. SPACs will be able to apply for a time extension for up to a maximum of 12 months. The SPAC must demonstrate compelling reasons for the time extension and needs to submit the extension application to the SGX at least 2 months before the end of the 24th month. The threshold for shareholders' approval will be a majority of at least 75% of the votes cast by shareholders at a general meeting to be convened.

3. Period of Moratorium to be Observed by the Sponsor, Management Team and their Respective Associates

Under SGX's typical IPO rules, a 6-month moratorium applies after listing. If an issuer (i) has a market capitalisation of S\$300 million (USD223.5 million) but is unable to meet the profits test under the SGX Mainboard Rules, (ii) is a mineral, oil and gas company, or (iii) a life science company (each a **Relevant Issuer**), a further 6-month moratorium applies to 50% of the original shareholdings.

⁵ Active SPACs markets in the US also require business combinations to be completed within 24 months from listing

Under the SGX SPAC Framework, there will be:

- a moratorium from the date of the SPAC's listing on the SGX Mainboard to the completion of the business combination which will apply to the shares of the SPAC's sponsor, the management team, and their respective associates; and
- a 6-month moratorium from completion of the business combination which will apply to the shares of: (i) the SPAC's sponsor, the management team, and their respective associates; and (ii) the controlling shareholders of the resulting issuer and their associates, and executive directors of the resulting issuer with an interest of 5% or more of its issued share capital after the business combination. If the resulting issuer is a Relevant Issuer, there is a further 6-month moratorium for 50% of the original shareholdings in line with the traditional IPO rules.

4. Minimum Participation for SPAC Sponsors and Management Team

Depending on the market capitalisation of the SPAC, the SPAC's sponsor and management team must subscribe for at least 2.5% to 3.5% of the IPO shares, units, or warrants. The minimum securities participation is intended to align the interests of the SPAC's sponsor and management team with those of the independent shareholders. The minimum securities participation requirements are summarised in the table below:

Market capitalisation of the SPAC (S\$ million) ("M")	USD equivalent (USD million)	Proportion of subscription
$150 \leq M < 300$	$111.8 \leq M < 223.5$	3.5%
$300 \leq M < 500$	$223.5 \leq M < 372.5$	3.0%
$M \geq 500$	$M \geq 372.5$	2.5%

5. Approvals Required for SPACs' Business Combinations

The business combination requires approval by a simple majority of independent directors, and an ordinary resolution passed by shareholders at a general meeting to be convened. For the purpose of voting on the business combination, the founding shareholders, the management team, and their associates, are not permitted to vote with shares acquired at nominal or no consideration prior to or at the IPO of the issuer.

6. Warrants will be Detachable, and Maximum Percentage Dilution to Shareholders Arising from Conversion of Warrants Issued at IPO Capped at 50%

Warrants or other convertible securities will be detachable from the SPAC's underlying ordinary shares which allow the warrants to trade separately on the SGX Mainboard. This is a reversal of the original proposal that warrants and other convertible securities should be non-detachable. Key points raised in the feedback were that detachable warrants remain fundamental to the dynamics of investors' considerations in a SPAC investment and that non-detachability could diminish the attractiveness of the SGX Mainboard for SPAC listings. Noting that the detachable warrants feature serves as a risk premium that SPAC IPO investors expect in return for investing in the SPAC for up to 36 months, the SGX agreed to adopt it.

SPACs are required to impose a percentage limit of not more than 50% on the maximum dilution to the issuer's post-invitation issued share capital with respect to the conversion of any warrants or other convertible securities issued by the SPAC in connection with the IPO. The SGX believes that a cap on warrant dilution will assist in ensuring the quality of the sponsor, since the market will play a role in ensuring that the maximum percentage limit of dilution with respect to conversion of warrants is appropriate and acceptable. However, SGX will still closely observe the local developments and may consider a waiver on a case by case basis of the 50% dilution cap requirement where the SPAC can demonstrate sufficient reasons.

7. All Independent Shareholders Entitled to Redemption Rights

SGX's original proposal was that only shareholders who voted against the business combination could redeem their shares. However, after taking into account market feedback, the SGX has decided to delink the redemption right from shareholders' voting decisions on the business combination and allow all independent shareholders to exercise their redemption rights (including independent shareholders who did not vote on the business combination).

This decision follows the US SPAC framework position, and the UK FCA Policy Statement where they opined that the redemption option, amongst other safeguards, was an important investor protection mechanism.

8. Sponsor's Promote Limit of up to 20% of Issued Shares at IPO

A "sponsor's promote" refers to the sponsor's entitlement to additional equity securities in a SPAC at nominal or no consideration in return for sponsoring the SPAC. After conducting market research and asking for respondents' feedback, the SGX adopted a sponsor's promote limit of up to 20% of the SPAC's issued share capital (on a fully diluted basis) at listing. The 20% limit will take into consideration the sponsor's promote in the form of warrants and/or other convertible securities. SGX will retain discretion in considering the appropriateness of the sponsor's promote, while taking into account the overall structure of the SPAC.

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