CFA Institute

SINGAPORE ROUNDTABLE ON SPECIAL PURPOSE ACQUISITION COMPANIES

April 2021

CFA Institute

SINGAPORE ROUNDTABLE ON SPECIAL PURPOSE ACQUISITION COMPANIES

RESULTS OF A STRAW POLL OF PARTICIPANTS AND A SELECTION OF COMMENTS ON ISSUES RAISED IN THE SINGAPORE STOCK EXCHANGE CONSULTATION PAPER ON SPECIAL PURPOSE ACQUISITION COMPANIES

April 2021

The mission of CFA Institute is to lead the investment profession globally by promoting the highest standards of ethics, education, and professional excellence for the ultimate benefit of society.

CFA Institute, with more than 170,000 members worldwide, is the not-for-profit organization that awards the Chartered Financial Analyst® (CFA) and Certificate in Investment Performance Measurement® (CIPM) designations. CFA®, Chartered Financial Analyst®, AIMR-PPS®, and GIPS® are just a few of the trademarks owned by CFA Institute. To view a list of CFA Institute trademarks and the Guide for the Use of CFA Institute Marks, please visit our website at www.cfainstitute.org.

Contents

This page intentionally left blank

Introduction

On 31 March 2021, the Singapore Stock Exchange (SGX) published a consultation paper and sought feedback on a proposed regulatory framework for the listing of the special purpose acquisition companies (SPACs) on its mainboard. Specifically, the consultation paper made detailed proposals on the broad admission criteria for SPACs, safeguards against dilution risks, other investor protection safeguards, and disclosures.

CFA Institute, in collaboration with CFA Society Singapore, convened two roundtable sessions in April to gather feedback from market participants on the structure and the issues raised in the consultation paper. The response, based on their inputs, and our positions, was submitted to SGX on 28 April 2021.[1]

Based on the consultation paper questions, we conducted a straw poll of the 17 participants who attended the two roundtable discussions. The results of the poll and a selection of comments are described in this report.

1. The SPAC Framework

We asked our participants their views on the growth in SPACs issuance in the United States in late 2020 and early 2021, and whether this growth was sustainable. The participants in our discussions were sanguine about the prospects of the SPAC structure, with more than half the respondents selecting the option "some celebrity-backed SPACs might fail but those backed with serious sponsors will succeed. Investors will become more discerning in the experience." The other options (i.e., SPACs reflect market exuberance, and SPACs are complex structures, and it is hard to figure winners and losers) did not gather enough support in our poll (see Figure 1).

A majority (71%) of the respondents agreed that SPACs will be beneficial to issuers, investors, and the capital market, and only 29% disagreed (see Figure 2).

[1]Please see the two documents accompanying this report: Cover Letter to SGX, and the Response to Consultation Paper on Proposed Listing Framework for Special Purpose Acquisition Companies (SPACs).

Figure 1. Straw Poll 1: What is your opinion of the SPACs boom?

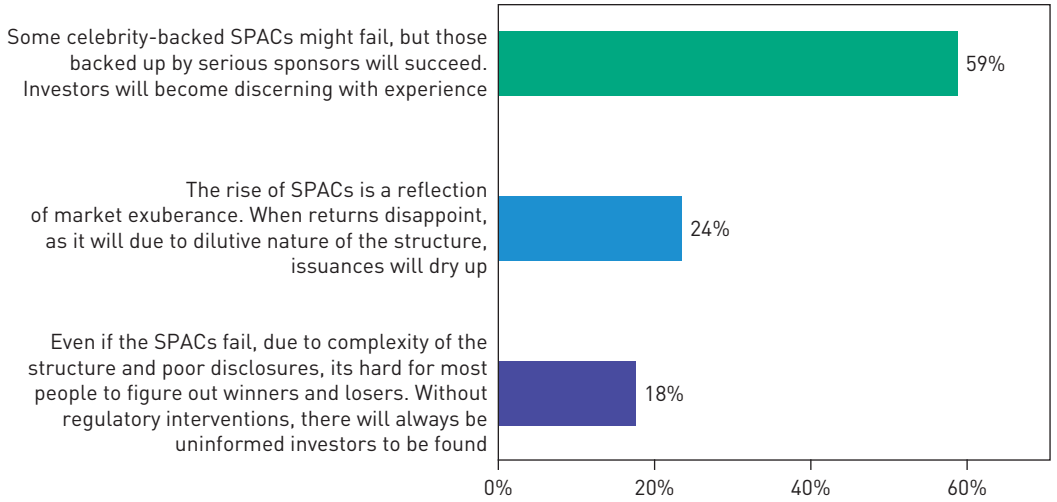
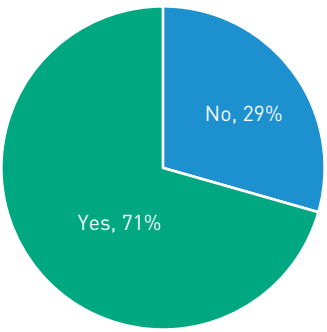


Figure 2. Straw Poll 2: Do you think that the introduction of a SPAC framework will be beneficial to issuers, investors, and the Singapore capital market?



Some participants said it is not clear whether SPACs will succeed in Singapore, but there are competitive reasons for introducing the structure, notably to avoid being left behind. One participant cited the example of Grab, which chose the United States as

the listing venue, to drive home the point that regulations should be comparable with other markets, even if some companies may still choose the United States because of its liquidity and depth of capital markets. One respondent, citing the experience of the dual-class share (DCS) structure, said the discussion around SPACs could become academic, if there are no issuances. Others said the implementation of the rules is as important as formulating the initial framework. The success of SPACs will depend on how flexible SGX is when it comes to approving these initial public offerings (IPOs) and mergers. One participant spoke about the opportunity for Singapore to attract listings of technology start-ups in ASEAN and South Asia, arguing they may prefer a Singapore listing over a US listing from a geographical standpoint. The business models for technology companies have changed because of the abundance of liquidity and investors' tolerance for loss-making companies, and traditional rules of valuation no longer apply. In this scenario, should we overregulate and potentially lose these listings to the United States?

Participants said that adequate safeguards should accompany the introduction of SPACs in Singapore to prevent the misallocation of capital and poor corporate governance practices. For example, after listing, Grab's CEO wielded a majority voting control, even while owning only 2% of stake, which has raised corporate governance concerns.

On the issue of complexity, one respondent said the SPAC prospectuses are difficult to understand. It is important that regulators create a framework that would allow both retail and accredited investors to invest knowing the terms would be fair. Respondents also called for consistency, arguing against any regulatory arbitrage between SPACs and IPOs. One participant felt that inherent conflicts of interest exist between target companies (that want the highest price), SPAC sponsors, and investors. There is a thin line between aggressive projections and misrepresentation during the de-SPAC (merger) process, and it takes only one failure to sour investor experience. Another respondent explained that he selected the minority view that SPACs reflect market exuberance because SPACs could well be the vehicle for inferior private companies that cannot finance themselves through IPOs, private equity investments, or direct listings.

In contrast, another respondent noted that SPACs have been in existence in the United States for several years. Given that Singapore is an international financial centre known for its speed of execution, there is a need to experiment with possibly one or two SPACs and gain experience, rather than going through a lengthy consultation process. He attributed Singapore's success in REITs to such innovation and experimentation.

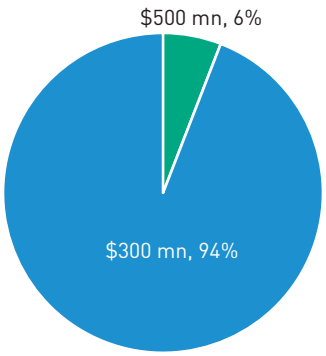
2. Admission and Related Eligibility Criteria

We asked participants for their views around admission criteria proposed in the SGX consultation paper, specifically on the following: the minimum market cap requirement, whether or not SPACs should be allowed to adopt a DCS structure, and whether there should be a minimum equity participation by sponsors and management team (i.e., "skin in the game").

For minimum market cap, almost all respondents (94%) chose SG$300 million (around US$225 million; see Figure 3). One respondent said SG$300 million was too high, compared with other jurisdictions, and argued for a lower threshold, or even to remove it altogether. Another said that the post-merger market capitalization is more important than the SPAC issuance size.

The opinion on whether SPACs should be allowed a DCS structure at the time of listing was evenly split (see Figure 4). Many respondents said that DCS should not be allowed at the time of SPAC listing, but that the structure could be allowed at the time of merger. Indeed, Singapore IPO rules already allow companies to have a DCS structure, and there is no reason not to allow this during the merger phase. But other respondents argued that because the DCS structure is available for traditional IPOs, the same should be allowed for SPACs in both listing and merger phases. One respondent who argued for DCS said the sponsors sometimes must work hard to raise funds and find an attractive target, and giving super-voting rights to sponsors can motivate them to negotiate the best deal, creating the right story and after-market success.

Figure 3. Straw Poll 3: What should be the minimum market cap of a SPAC?



Another respondent also argued for markets to decide the terms of the deal through proper disclosures, instead of restricting DCS. Others argued, however, that previous crises have shown that markets are not always right.

On the question of minimum equity participation, more than three-fourths of the respondents (77%) agreed with the SGX proposal, whereas only 23% said there is no need for minimum equity participation requirement for sponsors and the management team (see Figure 5).

Figure 4. Straw Poll 4: Should SPACs be allowed to adopt a DCS structure at the time of listing?

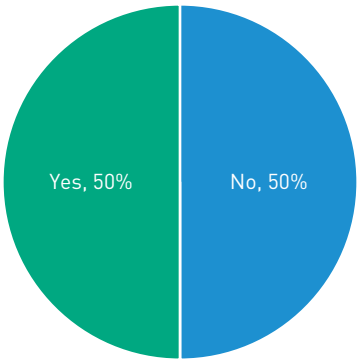
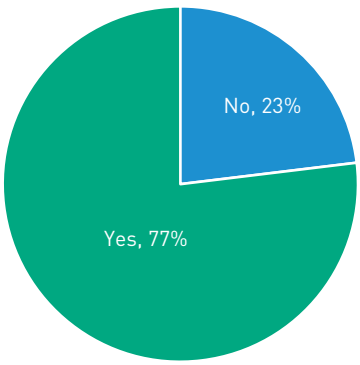


Figure 5. Straw Poll 5: Do you think there should be a requisite minimum equity participation of founding shareholders and management team at the time of SPAC IPO?



The respondents who agreed with a minimum equity participation said that in the absence of a regulatory requirement, most sponsors would not want to put in their capital. Minimum equity participation therefore is a good safeguard against conflicts of interest. Having a lock-up period or moratorium also prevents moral hazard.

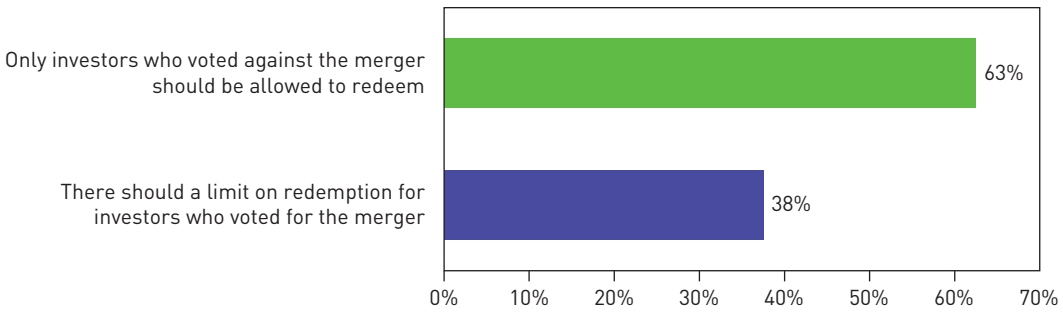
On the overall issue of admission-related criteria, one participant remarked that regulations can become too prescriptive and numeric. It is important to keep the bar for the sponsor high, in terms of track record and credibility, and potentially, all of these other concerns might fade away.

3. Safeguards Against Dilution Risks

We asked respondents their views on the redemption rights of shareholders. Two choices were put forth in the SGX consultation paper: the first is to allow only investors who voted against the merger to redeem, and the second is to partially allow investors who voted for the merger, by setting an overall limit on redemption.

Regarding shareholder rights, 63% of respondents chose the first option, and 38% chose the second (see Figure 6). One participant noted that if SPACs are thought of as poor man's private equity, and there is no redemption option in private equity, then SPACs also should have some restrictions on redemption. One participant noted it could be difficult administratively to manage the process of linking the shareholders' resolution vote to their redemption requests. One respondent said investors should be allowed to change their minds after voting for the resolution if they chose to, and the two decisions should be independent of each other. One respondent even proposed a fourth option, which is to

Figure 6. Straw Poll 6: Views on the redemption rights of shareholders



not allow a redemption option for anyone, because investors could sell their shares in the secondary market if they do not like the deal.

Among those who selected the first option, some said that investors who vote for the resolution, and then redeem, get a second chance at the prize, because of detachable warrants. This practice may be unfair to those who stuck with the company.

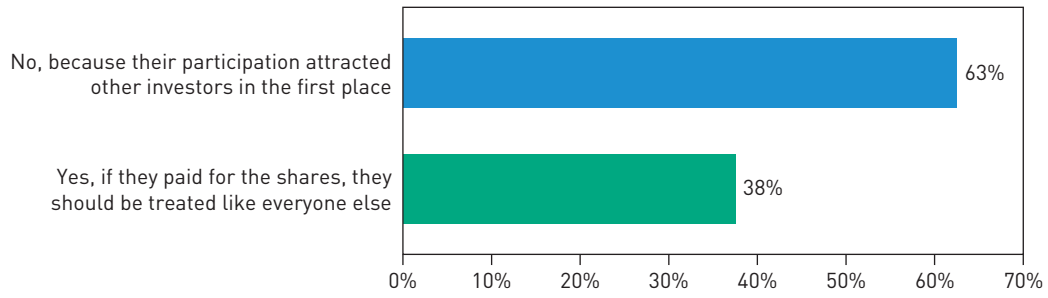
We also asked about the redemption rights of pre-IPO investors. Some 63% of the respondents chose the option that pre-IPO investors should not be allowed to redeem, whereas 38% said they should be allowed (see Figure 7).

One respondent said pre-IPO shareholders may get some discount, but they are not expected to get the same terms as the sponsor, such as promote, and hence, they should be treated like other investors. Others used the same fact that they receive a discount, to argue that they should not be allowed to redeem, unless there is a material adverse change in the company.

4. Other Investor Protection Safeguards

In the final section, we asked participants their views on other investor protection safeguards, including future exercisability of warrants, and promote. On the former, the SGX consultation paper proposed two options, one to make the warrants nondetachable, which means that redeeming shareholders would lose the warrants that were allotted to them as part of the IPO process. The second option is to impose a maximum percentage cap on the dilutive impact to shareholders arising from warrant conversion. In practice, if a

Figure 7. Straw Poll 7: Should pre-IPO investors be allowed to redeem?



sufficient number of shareholders redeem and the cap is breached, it could lead to the dissolution of the SPAC.

In our straw poll, we proposed a third option, in which a portion of warrants could be transferred from the redeeming investors to those who remain in the structure (i.e., the "Pershing Square option"). In this scenario, the dilutive impact of warrant conversion is balanced by the increased number of warrants received by surviving investors.

Similarly on the issue of promote, we proposed a third option, in which promote is structured as a long-term option partly exercisable on merger approval, and another part (at least 50%) is exercisable when certain post-merger milestones are met.

On the future exercisability of warrants, 44% of respondents chose the option that warrants must be nondetachable, followed by the Pershing Square option (31%) and maximum percentage cap (25%; see Figure 8).

One respondent who selected the third option said a freely traded warrant is an attractive feature, but if the warrants were nondetachable, it might make the structure unattractive.

On promote, 44% of the respondents chose the option we proposed—that is, promote should be in the form of long-term options rather than free shares. Another 31% said there should be no limits on promote, and 25% said there should be a lower cap (see Figure 9).

Figure 8. Straw Poll 8: Views on future exercisability of warrants

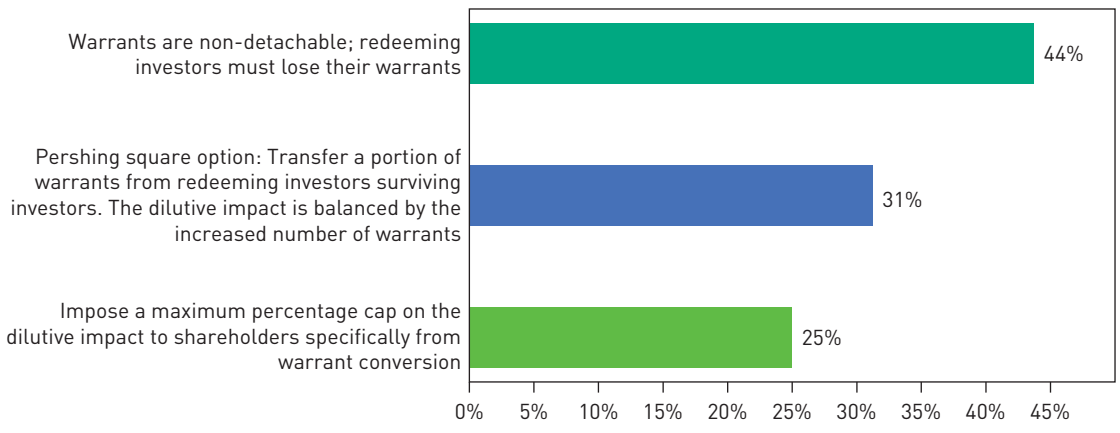
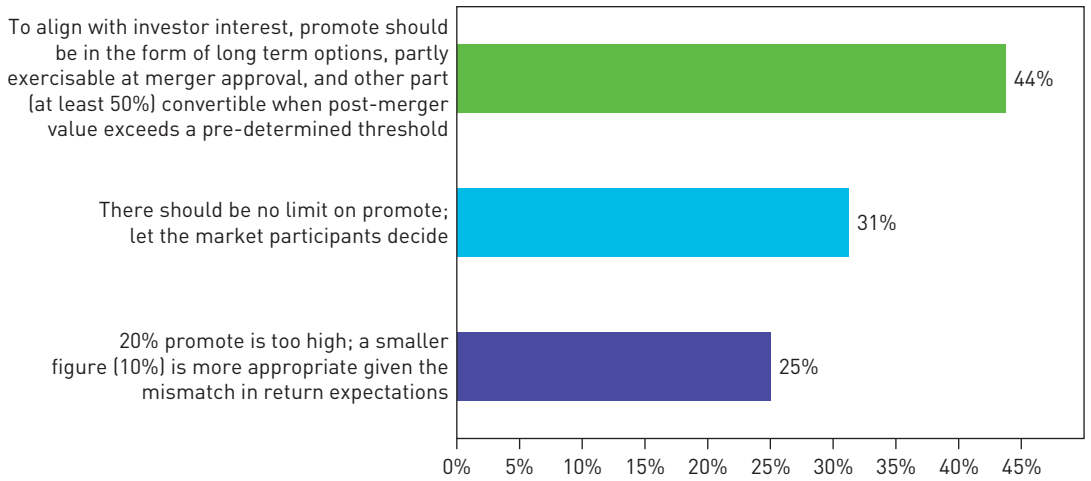


Figure 9. Straw Poll 9: Views on promote



Respondents who chose the no-promote option said that the Singapore regime must be comparable with other regimes to attract sponsors. Participants who chose a cap on promote said that it can be a useful signal to investors, with promote approaching the cap viewed negatively, compared with others that are set lower. Some also said the cap on promote should be set at 20%. One respondent said it is important to look at the balance of investor protection measures, rather than at individual measures.

5. Conclusion

The roundtable participants were positive about the introduction of the SPAC structure in Singapore and were optimistic about the ability of credible, experienced sponsors to create value for investors. They emphasized the need for safeguards, however, whether in the form of an equity commitment from the sponsor and protection against dilution or in the structure of the promote. As one participant put it, it is important to have a holistic view of investor protection measures to evaluate the final structure, rather than examine the measures individually.

This page intentionally left blank

THE AMERICAS
(800) 247 8132 PHONE (USA and Canada)
+1 (434) 951 5499 PHONE
+1 (434) 951 5262 FAX

915 East High Street
Charlottesville, VA 22902
USA

477 Madison Avenue
21st Floor
New York, NY 10022
USA

ASIA PACIFIC
+852 2868 2700 PHONE
+852 2868 9912 FAX

23/F, Man Yee Building
68 Des Voeux Road
Central, Hong Kong SAR

Si Wei Beijing Enterprise Management Consulting Company Limited
Unit 7, Level 12, Office Tower C1, The Towers, Oriental Plaza
No 1 East Chang An Avenue, Dong Cheng District
Beijing, 100738, China

CFA Institute India Private Limited
Naman Centre, Unit No. 103
1st Floor, Bandra-Kurla Complex, G Block, Bandra (East)
Mumbai 400 051, India

EUROPE, MIDDLE EAST, AND AFRICA
+44 (0) 20 7330 9500 PHONE
+44 (0) 20 7330 9501 FAX

131 Finsbury Pavement
7th Floor
London EC2A 1NT
United Kingdom

Rue du Champ de Mars 23
1050 Brussels, Belgium

CFA Institute

www.cfainstitute.org
info@cfainstitute.org