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## Thank you for taking the time to respond to the Consultation Paper on Special Purpose Acquisition Companies

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- (●) **Company/Organisation view**
- ( ) Personal view

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**Question 1**

Do you agree that the subscription and trading of SPAC securities prior to a De-SPAC Transaction should be limited to Professional Investors only (see paragraph 149 of the Consultation Paper)?

◉ **Yes**

○ No

Please give reasons for your views.

We generally agree with the Exchange that restricting the investors of SPAC to Professional Investors prior to DE-SPAC transactions will mitigate the risk exposed to retail investors who are generally less resourceful, less experienced and have less exposure to complex investment products, thus may be unable to fully understand, monitor and mitigate the risks involved in a SPAC investment. Further responses and suggestions will be made in the corresponding parts of the questions. Although we fully understand the rationale behind this proposal, we also believe that this investor suitability requirement is likely to make the HK SPAC regime less competitive and attractive compared to other markets, such as the U.S. and Singapore.

## Question 2

Do you agree with the measures proposed in paragraphs 151 to 159 of the Consultation Paper to ensure SPAC's securities are not marketed to and traded by the public in Hong Kong (excluding Professional Investors)?

- (●) **Yes**
- ( ) No

Please give reasons for your views.

We note that the Exchange has indicated that it will implement measures to limit the participation of secondary trading of SPAC securities to Professional Investors only, including but not limited to, requiring (i) SPAC Exchange Participants would need to obtain approval before trading SPAC securities; (ii) on-going monitoring through thematic review; (iii) and taking enforcement actions (including compulsory unwinding of unauthorised actions). We agree that the above measures would provide retail investors a high level of protection as it imposes additional obligations on the SPAC Exchange Participants to ensure that only Professional Investors would be allowed to access and invest in SPAC securities.

## Question 3a

Do you consider it appropriate for SPAC Shares and SPAC Warrants to be permitted to trade separately from the date of initial listing to a De-SPAC Transaction?

- ( ) Yes
- (●) **No**

Please give reasons for your views.

We believe that the detachability of SPAC Warrants from Shares to be a crucial feature to maintain the competitiveness of the SPAC market in Hong Kong. We also share the Exchange's concern on the volatility risk associated with the trading of SPAC securities. We suggest that the Exchange may consider referring to the alternative measures adopted in the US and Singapore markets in connection with the detachability of SPAC Shares and Warrants. We believe that volatility risks of warrants can be mitigated by enhanced restrictive measures instead of imposing an absolute ban on detachability. For reference, the US market and Singapore market generally allows investors to separate SPAC Units into SPAC Shares and SPAC Warrants after the SPAC securities are listed for 52 days and 45 days, respectively. The major concern regarding immediate detachability is that it enables speculative investors to sell the warrants for immediate yield while retaining the shares as a risk-free product or to retain only levered equity upside through investing warrants. Accordingly, in relation to the point of detachability, we do not recommend SPAC Shares and Warrants to be permitted to trade separately for a short period of time after the SPAC is listed to discourage immediate splitting and flipping of the warrants for an immediate yield. We believe allowing stabilization for HK SPAC IPOs would become a bonus feature to attract investors and a passage of 30 days which is equivalent to the stabilization period associated with HK IPOs would be a good reference point. Furthermore, we consider the period for restricting "non-detachability" should be longer than the proposed "SPAC stabilizations" period to mitigate the volatility risk. However, we do note that there is a Securities and Futures Ordinance requirement to have retail tranche to enable stabilization, so the "SPAC stabilizations" may need an exemption from that rule. After 30 days from the date of the SPAC listing, we propose that instead of requiring an "opt-on" process to allow the separation of the SPAC Warrant from SPAC Shares with reference to the market condition, it would be more favourable to adopt automatic separation to enhance certainty and liquidity of the SPAC securities and enable the SPAC Warrants and Shares to comply with other trading requirements, such as a minimum number of securityholder.

## Question 3b

As your answer to question 3a is "No", do you have any alternative suggestions?

- (●) **Yes**
- ( ) No

Please set out any alternative suggestions below.

See response to Question 3a above. For our response to Question 4 in relation to the two options proposed in paragraphs 170-174 of the Consultation Paper to mitigate the risks of extraordinary volatility in SPAC Warrants and disorderly market: We note that both options are targeted to mitigate the risk of extraordinary volatility in SPAC Warrants. However, we believe that Option 2, which allows auto-matching of orders subject to the Volatility Control Mechanism, would be more feasible and comparable to the existing practice on the regulation for the existing warrant being traded in Hong Kong. Given the strong downside protection nature of cash held in an escrow account, we don't believe SPAC warrants should require additional trading limitations as compared to the existing practice related to the trading of warrants in Hong Kong as the volatility of SPAC warrants as compared to existing HK warrants are expected to be relatively low.

## Question 5

Do you agree that, at its initial offering, a SPAC must distribute each of SPAC Shares and SPAC Warrants to a minimum of 75 Professional Investors in total (of either type) of which 30 must be Institutional Professional Investors?

- ○ Yes
- ◉ **No**

Please give reasons for your views.

We note that the underlying rationale of the Exchange in requiring 75 Professional Investors of which 30 must be Institutional Professional Investors is to ensure and maintain sufficient liquidity for SPAC securities prior to the completion of the De-SPAC Transaction. We have serious reservations over the practical implications of requiring a large number of Professional Investors and in particular, a large number of Institutional Professional Investors, to invest in SPAC as a demonstration of an open market. Given the stringent requirements of Institutional Professional Investors for entering an investment mandate, such as being an authorized financial institution, insurer, or registered scheme under the applicable laws of Hong Kong, we foresee there will be a considerable difficulty for the SPAC to secure the minimum number of Institutional Professional Investors in Hong Kong and Asia. We do not believe the SPAC Investors should be restricted to maintain a minimum of Institutional Professional Investors pool which are incorporated and governed by the statutory framework. We consider such restriction, and the threshold are, to a certain extent, not justified on the ground of investor protection and competitiveness. If the investment of SPAC is substantially limited to Institutional Professional Investors only, on the contrary, it may limit the liquidity of the SPAC and restrict the development of SPAC in Hong Kong which impaired the competitiveness of the SPAC regime in Hong Kong. The proposed SPAC listing regime is only helpful to the Hong Kong stock market if the SPAC can feasibly satisfy the requirement. It is important to note that in the US market, even in the absence of stringent qualification requirements being imposed on investors, the number of investors participating has dropped sharply since the first quarter of 2021. For example, only around 40 professional investors have invested in some recent US SPACs and the minimum board lot holder requirements were satisfied via retail investors with limited representation in terms of deal size. However, this will not be a viable path under the proposed rules for restricting only to Professional Investors. In a nutshell, given that the pool of Asia Professional Investors is to a certain extent more limited as compared to that of the US market, we believe the imposition of a minimum number of Professional Investors and Institutional Professional Investors would render the listing of SPAC in Hong Kong extremely difficult. We would therefore suggest the following alternatives for the Exchange to consider: (1) Lower the minimum number of Professional Investors from 75 to approximately 20-30; (2) Remove the requirement on the participation by a minimum of 30 Institutional Professional Investors; and (3) If the Exchange strongly believes that a minimum number of Institutional Professional Investors is necessary, we suggest a lower number of 6 (by reference to the minimum number of independent placees in the Placing Guidelines) to maintain more flexibility under challenge market environment.

## Question 6

Do you agree that, at its initial offering, a SPAC must distribute at least 75% of each SPAC Shares and SPAC Warrants to Institutional Professional Investors?

- ○ Yes
- ◉ **No**

Please give reasons for your views.

As stated in response to Question 5 above, we consider that the minimum distribution requirement of 75% of the underlying SPAC Shares and SPAC Warrants to Institutional Professional Investors at the time of initial SPAC offering is not feasible for formulating and operating SPAC. Having positioned and structured SPAC as a Professional Investor product, the minimum distribution requirement of 75% of SPAC Shares and SPAC Warrants to Institutional Professional Investors will further reduce the pool of potential investors for SPAC securities. We note that the root reason for requiring a minimum allocation of 75% of underlying SPAC Shares and SPAC Warrants to Institutional Professional Investors is to ensure the liquidity of the open market in the SPAC securities. However, a minimum number of Institutional Professional Investors may not necessarily achieve the goal of enhancing liquidity and maintaining an open market. In fact, under the current proposal, the requirement of having a minimum of 30 Institutional Professional Investors of which they would hold at least 75% of the overall SPAC Shares and SPAC Warrants are more likely to limit the liquidity of SPAC Shares given the group of Institutional Professional Investors is more limited and restrictive, and the stringent requirement of requiring a concentrated holding of SPAC securities by Professional Institutional Investors will make it even more difficult to trade the SPAC securities by identifying the qualified counterparties which is in effect working against the rationale of promoting an open market. We note that the major reason for proposing a minimum number of investors and minimum shareholding percentage requirement on Institutional Professional Investors is to ensure there is an open market. We, however, consider that the commercial decision of Professional Investors to invest in SPAC is motivated by observing the potential acquisition target being identified by the Promoter and the assessment of the potential investment return after the De-SPAC Transaction. The nature of SPAC as a novel listing product and the number of Professional Investors and Institutional Professional Investors do not have or necessarily have a direct correlation with the liquidity of SPAC. Therefore, no substantive return would realize prior or close to the De-SPAC Transaction and it is not expected there would be highly active trading on the market. From a practical perspective, individual and corporate Professional Investors could be the pillar for the proceeds for SPAC's listing as they are more flexible in their investment mandate compared to Institutional Professional Investors. We, therefore, suggest removing the 75% threshold to enhance the flexibility for marketing of SPAC IPO given in any case the subscription of trading of SPAC will only be limited to Professional Investors and the threshold would only be solely applicable to the group of Professional investors. We propose that there should not be any separate treatment Institutional Professional Investors and other types of Professional Investors.

## Question 7

Do you agree that not more than 50% of the securities in public hands at the time of a SPAC's listing should be beneficially owned by the three largest public shareholders?

- (●) **Yes**
- ( ) No

Please give reasons for your views.

Unlike traditional IPO listing, the Exchange has implemented more stringent requirement on investor's suitability by requesting that all investors of SPAC must be Professional Investors and Institutional Professional Investors and a minimum fundraising requirement. There exists the likelihood of the SPAC Promoter to communicate with a few larger-scale Professional Investors to contribute a substantial portion of the fund raised in the listing of SPAC, also considering the current SPAC market environment with the number of investors participating dropping sharply since the first quarter of 2021. The imposition of the 50% maximum shareholding restriction on the three largest public shareholders will inevitably further impair the ability of SPAC Promoter to approach investors and limit the allocation of the securities when a fewer number of Professional Investors exists to invest in the SPAC. We consider that the additional risk of potential concentration and the lack of liquidity should be considered, in addition to the other mechanisms already in place such as the minimum number of shareholders and Professional Investors required. Promoters should be incentivized to achieve a more spread-out register at SPAC IPO, as a concentrated shareholding of SPAC means the three largest public shareholders would have concentrated voting and redemption power to determine the outcome of the De-SPAC voting. In addition, other parameters such as a minimum number of Professional Investors participating in the SPAC IPO as well as a minimum number of shares being held by the public will provide comfort on spread of shareholder base.

## Question 8

Do you agree that at least 25% of the SPAC's total number of issued shares and at least 25% of the SPAC's total number of issued warrants must be held by the public at listing and on an ongoing basis?

- ○ Yes
- ◉ **No**

Please give reasons for your views.

Unlike traditional IPO to assess the operating business of the entity, SPAC investors primarily assess the experience and reputation of the SPAC Promoter when making decisions to invest. Having considered SPAC itself does not have substantive operating business, the alignment of the interest of the SPAC Promoter with the SPAC would be crucial and fundamental in the identification of suitable targets and generation of return for SPAC investors. We consider that a certain extent of SPAC Shares and SPAC Warrants being granted to the SPAC Promoter would be in the interest of the SPAC and the SPAC investors. Nevertheless, SPAC Shares and SPAC Warrants held by the SPAC Promoter are not listed and not counted towards the public float. We understand the focus of this proposal is to ensure a sufficient spread in shareholder base and liquidity in trading of the SPAC securities. Nevertheless we consider that unlike traditional HK IPOs, the underlying rationale of having SPAC securities being held by the public is not of utmost importance under the SPAC regime as there are no retail investors and one of the intentions of SPAC investment is to gain the potential upside after a successful De-SPAC Transaction. We believe it is not expected there would be substantial trading volume before the completion of De-SPAC Transaction. Furthermore, the current proposal has already indicated that sufficient public interest in the business of SPAC is not a must under the proposed SPAC regime and such requirement has already been stated to be exempted for the SPAC's initial offering. In the absence of the sufficient public interest requirement prior to the De-SPAC Transaction, it is unclear why the proposed rule still requires imposing the public float requirement after the listing of SPAC but before the De-SPAC Transaction. We do not consider the rigid requirement of having 25% of issued SPAC Securities to be held by the public encapsulating the fundamental nature of SPAC being a shell company prior to the De-SPAC Transaction. We therefore do not agree the 25% SPAC Shares and Warrants to be held by the public being a necessary requirement.

## Question 9a

Do you agree that the shareholder distribution proposals set out in paragraphs 181 and 182 of the Consultation Paper will provide sufficient liquidity to ensure an open market in the securities of a SPAC prior to completion of a De-SPAC Transaction?

- ○ Yes
- ◉ **No**

Please give reasons for your views.

As stated in the response in Question 8 and Question 9 above, we do not agree to the proposals set out in paragraph 181 and 182 of the Consultation Paper as the nature of SPAC is different from traditional IPO entity. We consider the key focus for SPAC's liquidity should be on ensuring sufficient liquidity after the De-SPAC. SPAC, by its inherent nature and design, do not encourage significant trading prior to the announcement of the De-SPAC target. We have mentioned that liquidity is not the key element for SPAC investment as SPAC is only a novel listing of a shell company. Therefore, liquidity of SPAC securities prior to a De-SPAC Transaction, we believe, is not the key consideration factor for Professional Investors. In contrast to liquidity, the crucial determinant for investing in SPAC is the amount of trust placed by investors on the SPAC Promoter's ability to identify and complete a combination with a suitable target in a timely manner to provide reasonable return upon the completion of De-SPAC transaction.

**Question 9b**

Are there other measures that the Exchange should use to help ensure an open and liquid market in SPAC securities?

- ○ Yes
- ○ No

Please set out any suggestions for other measures below.

See response to Question 9a above.

**Question 10**

Do you agree that, due to the imposition of restricted marketing, a SPAC should not have to meet the requirements set out in paragraph 184 of the Consultation Paper regarding public interest, transferability (save for transferability between Professional Investors) and allocation to the public?

- (●) **Yes**
- ( ) No

Please give reasons for your views.

We agree that the SPAC should not have to meet the requirements regarding public interest, transferability, and allocation to the public.

**Question 11**

Do you agree that SPACs should be required to issue their SPAC Shares at an issue price of HK$10 or above?

- (●) **Yes**
- ( ) No

Please give reasons for your views.

We generally agree that SPAC Shares shall be issued at a price of HK$10 above.

**Question 12**

Do you agree that the funds expected to be raised by a SPAC from its initial offering must be at least HK$1 billion?

- (●) **Yes**
- ( ) No

Please give reasons for your views.

**Question 13**

Do you agree with the application of existing requirements relating to warrants with the proposed modifications set out in paragraph 202 of the Consultation Paper?

- (●) **Yes**
- ( ) No

Please give reasons for your views.

We note the amendment is in line with the existing regulatory framework for warrants in Hong Kong. We agree with the proposed modification.

**Question 14**

Do you agree that Promoter Warrants and SPAC Warrants should be exercisable only after the completion of a De-SPAC Transaction?

- (●) **Yes**
- ( ) No

Please give reasons for your views.

**Question 15a**

Do you agree that a SPAC must not issue Promoter Warrants at less than fair value?

- ○ Yes
- ◉ **No**

Please give reasons for your views.

We do not consider the proposal in relation to the Promoter Warrants would be helpful to facilitate the development of the HK SPAC regime. Fair Value We disagree with the proposal for Promoter Warrants must not be issued at less than the fair value. We note that the rationale for the fair value proposition is to avoid the misalignment of interest between the SPAC Promoter and SPAC shareholders. We also note that the Exchange appreciates Promoter Warrants are issued on a standalone basis of a value that is enough to cover the underwriting fees for the SPAC IPO, other offering expenses and the expenses needed to search for and identify a De-SPAC Target. Having taken the above factors into account, we believe there is misconception by correlating on the one hand the reduction of the risk of misalignment of interest between the SPAC Promoter and SPAC shareholders and on the other hand ensuring the fair value of Promoter Warrants. We consider that the intrinsic value of Promoter Warrants is to facilitate, incentivize and compensate the Promoter for setting up the SPAC, and to provide further incentives for the Promoter to identify quality target and to reward the SPAC Promotor. We also consider that prior to the De-SPAC Transaction, the SPAC is only a shell without any business. It is unclear on how fair value is to be determined when the manifest value is based on how the Professional Investors assess the SPAC Promoter when exercising discretion on the SPAC investment, of which this is entrenched on the background, ability and experience of the SPAC Promoter itself.

## Question 15b

Do you agree that a SPAC must not issue Promoter Warrants that contain more favourable terms than that of SPAC Warrants?

- ○ Yes
- ◉ **No**

Please give reasons for your views.

Prohibition of more favourable terms We disagree with the proposal on the prohibition of Promoter Warrants to contain more favourable terms than that of SPAC Warrants. As stated in the Consultation Paper, Promoter Warrants in the US, as compared with SPAC Warrants, are generally classified as “restricted securities” and are not allowed to be traded in the market, and Promoter Warrants often contain more favourable terms than SPAC Warrants such as not being subject to redemption if the shares of successor company are traded above the prescribed price. Although the Exchange concurs that Promoter Warrants would facilitate the future success of the SPAC by providing incentives to SPAC Promoters to identify the suitable targets and negotiate favourable terms on behalf of the SPAC investors, the current proposal restricted the transfer of legal ownership of Promoter Warrants. Based on the Exchange’s proposal and observation in the Consultation Paper, it seems the Exchange has already differentiated the treatment and nature between Promoter Warrants and SPAC Warrants, with the former mainly serving as a tool to incentivize the Promoter, and the latter functioning as compensation for deferred investment return until after the De-SPAC Transaction. Therefore, it is unclear as to the rationale for referencing the terms of two distinctive units of SPAC and making a direct comparison on their treatment, and then to conclude that there is a risk of misalignment of interests if they are different. We consider that it is acceptable to impose requirement on the alignment of certain key commercials terms for Promotor warrants are not more favourable than public warrants, such as the maturity not being longer, strike price not being lower, and currency denomination having to be the same. However, restriction imposed on cashless exercise for SPAC warrant as part of the settlement mechanism will be an important concern for Promoters and would become a deterrent factor for Promotor to participate the Hong Kong SPAC regime. To align the terms of the two types of Warrants may disincentivize the Promoters, resulting in the reduction of their efforts in setting up a SPAC and locating ideal target to benefit the interest of the SPAC shareholders.

## Question 16

Do you agree that the Exchange must be satisfied as to the character, experience and integrity of a SPAC Promoter and that each SPAC Promoter should be capable of meeting a standard of competence commensurate with their position?

- (●) **Yes**
- ( ) No

Please give reasons for your views.

We generally agree that the character, experience, and integrity of SPAC Promoter are the pillar of assessment when investors invest on the SPAC as it is only a shell prior to the De-SPAC Transaction and the future success of the SPAC depends on the ability and insight of the SPAC Promoter to identify and negotiate with the target to complete the De-SPAC Transaction. Therefore, we agree that a SPAC Promoter should meet certain standards of competence commensurate with the position. Nevertheless, we consider that the Exchange shall adopt a holistic approach to assess the suitability and the competence of a Promoter instead of simply narrowing down the selection criteria to two indicators as stipulated in paragraph 216 to assess whether the SPAC Promoters have sufficient experience. Having included several factors in Box 1 of the Consultation Paper, the Exchange should be allowed to exercise discretion after considering the factors it considers as relevant to assess the suitability of SPAC Promoter in a holistic manner. Furthermore, we would like to seek clarification from the Stock Exchange on whether "Flagship" index highlighted in paragraph 216 refers to global indices. The proposed requirements on Promotor are stringent, particularly if limiting 216b to Hong Kong listed issuers. A wide range of successful US SPACS promotors would likely not have been able to fulfil these proposed requirements. We would also note that the success factors for a SPAC Promotor might not be directly linked to items listed in paragraphs 216(a) and 216(b) as this e.g. does not take into account the promotors' (sourcing) network and know-how to successfully negotiate and complete a transaction.

## Question 17a

Do you agree that the Exchange should publish guidance setting out the information that a SPAC should provide to the Exchange on each of its SPAC Promoter's character, experience and integrity (and disclose this information in the Listing Document it publishes for its initial offering), including the information set out in Box 1 of the Consultation Paper?

- (●) **Yes**
- ( ) No

Please give reasons for your views.

We note that the criteria stipulated in Box 1 has highlighted certain items that can demonstrate the experience of being a SPAC Promoter in other jurisdictions and shed light on what are the holistic factors that are considered by the Exchange to be relevant in the assessment of a SPAC Promoter. We consider that for a SPAC Promoter to demonstrate and satisfy the Exchange of its character, experience and integrity, no separate and individual items/characters should be considered as having a disproportion and overriding weighting in terms of determining the capability of a SPAC Promoter. We would suggest to the Exchange that it should highlight in its guidance that it would consider the SPAC Promoter's background holistically and shall not position the guidance as a minimum requirement for one to qualify as a SPAC Promoter.

**Question 17b**

Is there additional information that should be provided or information that should not be required regarding each SPAC Promoter's character, experience and integrity?

- ◯ Yes
- ◯ No

Please provide the details of any such information below.

See response to Question 17a above.

**Question 18**

Do you agree that the Exchange, for the purpose of determining the suitability of a SPAC Promoter, should view favourably those that meet the criteria set out in paragraph 216 of the Consultation Paper?

- ◉ **Yes**
- ◯ No

Please give reasons for your views.

## Question 19a

Do you agree that at least one SPAC Promoter must be a firm that holds a Type 6 (advising on corporate finance) and/or a Type 9 (asset management) license issued by the SFC?

- ○ Yes
- ◉ **No**

Please give reasons for your views.

We do not consider that it should be a pre-requisite for at least one SPAC Promoter to be licensed in Hong Kong under the SFC regime and it is also not necessary for it to hold at least 10% of the Promoter Shares. Overseas Promoters Prior to the launching of the SPAC regime in Hong Kong, most SPAC Promoters are setting up SPAC in overseas jurisdictions. The requirement of a SPAC Promoter being a licensed holder would deter those experienced and capable SPAC Promoters to participate in the Hong Kong SPAC market which would in effect continuously place the Hong Kong SPAC market at a disadvantage to the US market. We consider the requirement imposed on a SPAC promotor to hold a Type 6 and/or a Type 9 license will be a difficult hurdle for foreign SPAC promoters to meet. If this licensing requirement is upheld, it is likely that a foreign SPAC promoter will team up with a local licensed entity to fulfill this requirement. Given that the key value and function of SPAC Promoter is their experience and ability to identify suitable target for De-SPAC transaction, the SFC licensing requirement should not be an overriding factor for investors when deciding whether to invest in the SPAC, especially for Professional Investors. In fact, we consider the Stock Exchange should also take into consideration of the Promotor's license in other jurisdictions, for instance UK, when considering the Promotor's qualification. We note that with regards to the US market practice, many successful targets went public via SPAC created by former entrepreneurs and previous investment bankers and senior officers. Regulatory protection offered to professional Investors and retail investors are in substance different. For instance, for privately placed investment products offered to Professional Investors, it is not subject to SFC authorization requirements and the offering and marketing documents are not subject to any regulatory vetting. This has demonstrated the tendency of regulators to differentiate between the level of protection afforded to retail investors and Professional Investors. Given that SPAC Investors are restricted to Professional Investors only, we consider that the requirement in requiring at least one SPAC Promoter for a SPAC offering to non-retail investor to be a firm holding either a Type 6 and/or Type 9 license would be unduly burdensome and does not produce proportionate probative value. Regarding the 10% Promoter Shares requirement, we consider that as the Type 6 and/or Type 9 licensing requirement would already be unduly burdensome for the formation of SPAC, the additional promotor shareholding requirement would make the SPAC regime to be even less attractive. In the US, SPAC Promoters are allowed not to possess Promoter Shares, and instead SPAC Promoters can decide to only possess voting power to minimize the impact of dilution resulting from the Promoter Shares to facilitate the negotiation of the terms of De-SPAC deal.

## Question 20a

Do you agree that, in the event of a material change in the SPAC Promoter or the suitability and/or eligibility of a SPAC Promoter, such a material change must be approved by a special resolution of shareholders at a general meeting (on which the SPAC Promoters and their respective close associates must abstain from voting)?

- (●) **Yes**
- ( ) No

Please give reasons for your views.

**Question 20b**

Should the trading of a SPAC's securities be suspended and the SPAC return the funds it raised from its initial offering to its shareholders, liquidate and de-list (in accordance with the process set out in paragraphs 435 and 436 of the Consultation Paper) if it fails to obtain the requisite shareholder approval within one month of the material change?

- (●) **Yes**
- ( ) No

Please give reasons for your views.

**Question 21**

Do you agree that the majority of directors on the board of a SPAC must be officers (as defined under the SFO) of the SPAC Promoters (both licensed and non-licensed) representing the respective SPAC Promoters who nominate them?

- (●) **Yes**
- ( ) No

Please give reasons for your views.

We generally agree with the principle of this proposed rule that SPAC Promoters should be held accountable for the SPAC as a whole. However, we believe that the proposed language should be made more specific and we would seek clarification from the Exchange on the following points: (1) Whether a majority of the SPAC directors must be a licensed person by the SFC? (2) Whether the director must be a CEO, CFO or another senior management member of the SPAC Promoter which nominated that director? (3) Whether the whole Chapter 3 of the Listing Rules would be applicable to the SPAC, including the INED and board committee requirements? (4) Whether the director(s) must be a responsible officer working in the SPAC Promoter as defined under the SFO or any responsible officer that have no employment relationship with the SPAC Promoter would suffice? (5) Is there any minimum requirement for the number of the board members? (6) If a SPAC Promoter is a natural person and there is only one director, can this natural person satisfy this proposed rule by acting as the director or does he or she need to identify another officer as defined under the SFO? (7) For "SPAC Promoters (both licensed and non-licensed)", is this referring only to the Type 6 and Type 9 SFC license requirement in Hong Kong? How about if such Promoter only holds other types of SFC licenses or licenses from other jurisdictions?

## Question 22

Do you agree that 100% of the gross proceeds of a SPAC's initial offering must be held in a ring-fenced trust account located in Hong Kong?

- (●) **Yes**
- ( ) No

Please give reasons for your views.

While we agree that 100% of the gross proceeds of a SPAC's initial offering must be held in a ring-fenced account located in Hong Kong to protect the funds raised by the SPACs, we wish to draw to the Exchange's attention that it may not limit the gross proceeds be held in a trust account only but should also allow using an escrow account in Hong Kong.

**Question 23**

Do you agree that the trust account must be operated by a trustee/custodian whose qualifications and obligations should be consistent with the requirements set out in Chapter 4 of the Code on Unit Trusts and Mutual Funds?

- (●) **Yes**
- ( ) No

Please give reasons for your views.

In addition, should the SPAC IPO proceeds be allowed to be placed in an escrow account as proposed in our response to Question 22 above, we want the Exchange to clarify if banks that are able to offer escrow services in Hong Kong also need to meet the trustee/custodian qualifications and requirements set out in Chapter 4 of the Code on Unit Trusts and Mutual Fund, or these banks are eligible by holding other qualifications?

**Question 24**

Do you agree that the gross proceeds of the SPAC's initial offering must be held in the form of cash or cash equivalents such as bank deposits or short-term securities issued by governments with a minimum credit rating of (a) A-1 by S&P; (b) P-1 by Moody's Investors Service; (c) F1 by Fitch Ratings; or (d) an equivalent rating by a credit rating agency acceptable to the Exchange?

- (●) **Yes**
- ( ) No

Please give reasons for your views.

We agree that the gross proceeds must be held in highly liquid and safe financial instruments. We also bring to the Exchange's attention that holding the proceeds in the form of short-term securities, such as bonds, would still expose SPAC investors to fluctuations in the value of those securities (such as due to interest rate risk) and also subject them to management fees and/or trading and subscription fees. One alternative which the Exchange can consider is to limit the types of short-term securities to highly-rated Money Market Funds with a much lower risk of loss of value, compared to bonds.

**Question 25**

Do you agree that the gross proceeds of the SPAC's initial offering held in trust (including interest accrued on those funds) must not be released other than in the circumstances described in paragraph 231 of the Consultation Paper?

- (●) **Yes**
- ( ) No

Please give reasons for your views.

We propose that the proceeds from the issuance of SPAC Warrants should be separated from the IPO proceeds and can therefore be used to pay IPO expenses/ fees.

**Question 26**

Do you agree that only the SPAC Promoter should be able to beneficially hold Promoter Shares and Promoter Warrants at listing and thereafter?

- ( ) Yes
- (●) **No**

Please give reasons for your views.

Currently in the US SPAC market, many Promoters are transferring a portion of their promoter shares to anchor investors that buy 10% position in the SPAC IPO. Such promoter shares may also be transferred to certain PIPE buyers as an incentive to get a deal done during challenging market conditions. Furthermore, during the De-SPAC negotiations with the target company, there have been several instances where the promoter shares are transferred to a charitable trust to reduce the financial economics to the promoter. Therefore, restricting the transfer of the Promoter Shares on or after the SPAC listing will be a competitive disadvantage for Hong Kong and will severely limit flexibility of Promoters to provide incentives where necessary to negotiate a deal and make it more difficult for HK SPAC listing to be completed in challenging market conditions. It would be more practical to allow transfer and enable more flexibility in structuring the deal if certain conditions are met.

**Question 28**

Do you agree with our proposal to prohibit a SPAC Promoter (including its directors and employees), SPAC directors and SPAC employees, and their respective close associates, from dealing in the SPAC's securities prior to the completion of a De-SPAC Transaction?

- (●) **Yes**
- ( ) No

Please give reasons for your views.

**Question 29**

Do you agree that the Exchange should apply its existing trading halt and suspension policy to SPACs (see paragraphs 249 to 251 of the Consultation Paper)?

- (●) **Yes**
- ( ) No

Please give reasons for your views.

**Question 30**

Do you agree that the Exchange should apply new listing requirements to a De-SPAC Transaction as set out in paragraphs 259 to 281 of the Consultation Paper?

- ○ Yes
- ◉ **No**

Please give reasons for your views.

We believe that some of the new listing requirements should be relaxed if certain conditions are met. We propose that the Exchange shall offer automatic waivers or case-by-case waivers from strict compliance with the Listing Rules to streamline the process and expedite the De-SPAC Transactions, by reference to secondary listing related rules.

**Question 31**

Do you agree that investment companies (as defined by Chapter 21 of the Listing Rules) should not be eligible De-SPAC Targets?

- ◉ **Yes**
- ○ No

Please give reasons for your views.

**Question 32**

Do you agree that the fair market value of a De-SPAC Target should represent at least 80% of all the funds raised by the SPAC from its initial offering (prior to any redemptions)?

- (●) **Yes**
- ( ) No

Please give reasons for your views.

**Question 33**

Should the Exchange impose a requirement on the amount of funds raised by a SPAC (funds raised from the SPAC's initial offering plus PIPE investments, less redemptions) that the SPAC must use for the purposes of a De-SPAC Transaction?

- ( ) Yes
- (●) **No**

Please give reasons for your views.

We understand the rationale behind this proposed rule and generally agree that the Successor Company should not be a cash company unsuitable for listing under Listing Rules 8.05 but imposing a hard cap of 80% is unnecessarily restrictive and it's better to leave the Successor Company and the De-SPAC Sponsor to determine, same as a traditional IPO in Hong Kong. As such, we consider that the Exchange shall not impose a requirement for the SPAC to use at least 80% of proceeds (SPAC + PIPE) for the De-SPAC Transaction. There are several key considerations: (1) De-SPAC target companies are often high growth businesses that are not yet generating substantial cash flow. Primary proceeds from the De-SPAC Transaction could be an important source of primary capital they need to fuel business expansion after the De-SPAC; (2) Existing shareholders of the target company may not be willing to incur so much dilution by selling secondary shares as part of a De-SPAC Transaction. (3) Similar to a traditional IPO, there is negative signalling associated with the existing shareholders selling out at the time of listing. This could negatively impact the marketing of the PIPE, and cause De-SPAC Transactions to be seen as a way for existing holders to exit subpar businesses relative to traditional IPOs where existing holders retain their shares; and (4) We are not aware of any other jurisdiction having this requirement.

## Question 35

Do you agree that the Exchange should mandate that a SPAC obtain funds from outside independent PIPE investors for the purpose of completing a De-SPAC Transaction?

- ○ Yes
- ◉ **No**

Please give reasons for your views.

We believe that PIPE investment should not be mandatory. Under the current challenging SPAC market where (i) certain De-SPAC Transactions do not have any PIPE; and (ii) the size of certain De-SPAC is comparatively small; PIPE is not straight forward and SPAC is usually subscribed by strategic investors of the target company or existing SPAC shareholders. Making PIPE mandatory would delay the timeline of the De-SPAC Transaction and make the HK SPACs less competitive than that of other markets. Investors have the redemption rights in any case. We would also note that the amount of capital to be raised in a De-SPAC transaction is a commercial point and funding needs vary significantly between companies, e.g. some companies with positive cashflow might not require capital in access of anticipated proceeds from cash in trust. Additionally, if the Exchange strongly believes that PIPE is mandatory, non-independent investors such as Promoters should be allowed to participate in the PIPE to demonstrate validation for the valuation and increase market confidence and flexibility. Further, if the Exchange believes that PIPE is mandatory, such mandatory requirement shall be imposed specifically on limited types of pre-revenue businesses, such as biotech companies, where the determination of valuation is particularly challenging. This would be consistent with existing requirements for listing biotech companies under Chapter 18A, and Guidance Letter 92-18, which requires Chapter 18A listing applicants to have received "meaningful third-party investment from at least one Sophisticated Investor", for the purposes of demonstrating that there is a reasonable degree of market acceptance for the 18A listing applicant's product. However, if the Exchange considered that such PIPE investment should be mandatory, we believe the threshold proposed is unreasonably high. Comparing to those PIPE investments executed in the US market, the threshold required for PIPE would be larger than most of the PIPEs that have been executed for the SPACs in the US. Such requirement would impair the ability of a HK SPAC to execute the PIPE, particularly in the case of larger De-SPAC transactions. We suggest imposing alternative thresholds that independent PIPE investment must be (i) at least 10-15% of the expected market capitalisation of the Successor Company, depending on the market capitalisation at the time of listing, or (ii) at least HK$400 million (around US$50 million), whichever is lower. In response to Question 37 regarding the eligibility of the PIPE investor, While it is agreed that at least one independent PIPE investor in a De-SPAC Transaction must be an asset management firm with assets under management of at least HK$1 billion or a fund of a fund size of at least HK$1 billion, the requirement that its investment must result in beneficially owning at least 5% of the issued shares of the Successor Company should be removed. No other SPAC regime has any qualification requirement of the PIPE investors. Requiring a PIPE investor to meet this additional requirement makes getting a PIPE done much more difficult.

## Question 39

Do you prefer that the Exchange impose a cap on the maximum dilution possible from the conversion of Promoter Shares or exercise of warrants issued by a SPAC?

- (●) **Yes**
- ( ) No

Please give reasons for your views.

On Promoter Shares: Agree as the 20% dilution cap follows the global market practice for SPAC IPOs. On Public and Promoter Warrants: Disagree as it is too restrictive and such proposal would severely limit market appetite for Hong Kong SPACs. Our alternative proposals are as follows: (1) "Warrant to share" ratio should be increased to at least ½ to match the US SPACs with Asia-based Promoters; (2) Total dilution cap for Promoter Warrants and SPAC Warrants (in aggregate) should be removed; and (3) Individual dilution cap on Promoter Warrants should be removed as it is too restrictive

## Question 40

Do you agree with the anti-dilution mechanisms proposed in paragraph 311 of the Consultation Paper?

- ( ) Yes
- (●) **No**

Please give reasons for your views.

See response to Question 39 above.

## Question 41

Do you agree that the Exchange should be willing to accept requests from a SPAC to issue additional Promoter Shares if the conditions set out in paragraph 312 of the Consultation Paper are met?

- (●) **Yes**
- ( ) No

Please give reasons for your views.

As the US markets have precedents for strong profile sponsor Promoters to hold 25% stake of the Successor Company, we believe that the Exchange should be willing to accept requests to increase the cap on a case-by-case basis.

**Question 42**

Do you agree that any anti-dilution rights granted to a SPAC Promoter should not result in them holding more than the number of Promoter Shares that they held at the time of the SPAC's initial offering?

- (●) **Yes**
- ( ) No

Please give reasons for your views.

**Question 43**

Do you agree that a De-SPAC Transaction must be made conditional on approval by the SPAC's shareholders at a general meeting as set out in paragraph 320 of the Consultation Paper?

- (●) **Yes**
- ( ) No

Please give reasons for your views.

The proposal is in line with market practice.

**Question 44**

Do you agree that a shareholder and its close associates must abstain from voting at the relevant general meeting on the relevant resolution(s) to approve a De-SPAC Transaction if such a shareholder has a material interest in the transaction as set out in paragraph 321 of the Consultation Paper?

- (●) **Yes**
- ( ) No

Please give reasons for your views.

Our proposal is that a SPAC shareholder and its close associates should abstain from voting only if they are not independent from the Target Company. By virtue of being a SPAC Promoter only does not give rise to a material conflict of interest and therefore we propose that a SPAC Promoter should be allowed to vote if evidence of independence can be demonstrated.

**Question 45**

Do you agree that the terms of any outside investment obtained for the purpose of completing a De-SPAC Transaction must be included in the relevant resolution(s) that are the subject of the shareholders vote at the general meeting?

- (●) **Yes**
- ( ) No

Please give reasons for your views.

## Question 46

Do you agree that the Exchange should apply its connected transaction Rules (including the additional requirements set out in paragraph 334) to De-SPAC Transactions involving targets connected to the SPAC; the SPAC Promoter; the SPAC's trustee/custodian; any of the SPAC directors; or an associate of any of these parties as set out in paragraphs 327 to 334 of the Consultation Paper?

- (●) **Yes**
- ( ) No

Please give reasons for your views.

Further, we seek the Exchange's clarification on whether acting as a SPAC IPO underwriter and the financial adviser in the De-SPAC Transaction would make the De-SPAC Transaction a connected transaction.

## Question 47

Do you agree that SPAC shareholders should only be able to redeem SPAC Shares they vote against one of the matters set out in paragraph 352 of the Consultation Paper?

- ( ) Yes
- (●) **No**

Please give reasons for your views.

This is a fundamental and structurally critical feature of SPAC where SPAC shareholders should be able to redeem SPAC Shares regardless of how they vote for the following reasons: (1) Disallowing a SPAC shareholder to redeem SPAC Shares when they vote for one of the matters set out in paragraph 351 decreased the likelihood that a majority of shareholders would vote in favour of the De-SPAC Transaction and therefore (i) decreased the certainty that the De-SPAC Transaction would successfully complete; and (ii) decreased the willingness of the Promoters to risk capital to set up a SPAC; and (iii) reduced the appeal to the investors as the likelihood of cash being tied up in escrow for the full 24 months without having a De-SPAC Transaction approved becomes much higher; (2) PIPE investment, especially the size of the PIPE investment, is often served as a validation on the valuation of the De-SPAC Transaction and act as an additional check and balance. As such, it is not necessary to establish direct link between voting and redemption; (3) Promoters and the target business are already motivated to negotiate a fair deal with upside potential for investors, as otherwise they will face significant redemptions even if the deal were approved; and (4) Some hedge fund investors may choose to hold warrants only and eliminate their long position on shares due to their trading strategy, while they still support the De-SPAC Transaction. The current proposed term unnecessarily increases the possibility for investors to vote "against" the De-SPAC Transaction.

## Question 48

Do you agree a SPAC should be required to provide holders of its shares with the opportunity to elect to redeem all or part of the shares they hold (for full compensation of the price at which such shares were issued at the SPAC's initial offering plus accrued interest) in the three scenarios set out in paragraph 352 of the Consultation Paper?

- (●) **Yes**
- ( ) No

Please give reasons for your views.

## Question 49

Do you agree a SPAC should be prohibited from limiting the amount of shares a SPAC shareholder (alone or together with their close associates) may redeem?

- (●) **Yes**
- ( ) No

Please give reasons for your views.

**Question 50**

Do you agree with the proposed redemption procedure described in paragraphs 355 to 362 of the Consultation Paper?

- (●) **Yes**
- ( ) No

Please give reasons for your views.

**Question 51**

Do you agree that SPACs should be required to comply with existing requirements with regards to forward looking statements (see paragraphs 371 and 372 of the Consultation Paper) included in a Listing Document produced for a De-SPAC Transaction?

- (●) **Yes**
- ( ) No

Please give reasons for your views.

We generally agree with the Exchange's proposal that if the Listing Document in relation to the De-SPAC Transaction would contain a profit forecast or estimate, existing Listing Rules requirements should be followed. However, the Consultation Paper is silent as to whether the research reports can be issued for the De-SPAC Transaction. It is common in traditional HK IPOs to have research reports published by independent research analysts with a relatively longer period of projections compared to a profit forecast contained in the IPO prospectus. We want to seek the Exchange's clarification as to whether independent research analysts are allowed, after the A1 is filed and before the general meeting to approve the De-SPAC Transaction, to publish and distribute research reports covering the De-SPAC Target or the Successor Company to institutional investors, including the existing shareholders of the same SPAC to aid their investment decision as to whether to ask for redemption at the time of the De-SPAC Transaction.

## Question 52

Do you agree that a Successor Company must ensure that its shares are held by at least 100 shareholders (rather than the 300 shareholders normally required) to ensure an adequate spread of holders in its shares?

- (●) **Yes**
- ( ) No

Please give reasons for your views.

Agree that a minimum threshold of shareholders of at least 100 should be met by the Successor Company, but we believe time/ transitional period shall be allowed for the Successor Company to satisfy this requirement. Unlike other stock exchanges, the HK SPAC can only be held by Professional Investors. That will materially limit the number of shareholders. The PIPE offering may also be tightly placed to a small number of investors, especially during more challenging market conditions. If there are substantial redemptions of SPAC Shares, the number of shareholders would further be reduced. We believe that the Successor Company should be provided with some time post-closing of De-SPAC Transaction and after expiry of lock-up periods, to satisfy the shareholder spread requirements.

## Question 53

Do you agree that the Successor Company must meet the current requirements that (a) at least 25% of its total number of issued shares are at all times held by the public and (b) not more than 50% of its securities in public hands are beneficially owned by the three largest public shareholders, as at the date of the Successor Company's listing?

- (●) **Yes**
- ( ) No

Please give reasons for your views.

We generally agree that not more than 50% of its securities in public hands are beneficially owned by the three largest shareholders, but we do not agree that at least 25% of its total number of issued shares are at all times held by the public as it is too strict given that the Exchange already proposed to require a mandatory PIPE investment. As a result, it is likely that the proposed public float requirement could not be satisfied, especially shortly after the De-SPAC Transaction. Therefore, if the Exchange proposed to impose such a public float requirement, we consider that a grace period of at least 12-month after the completion of the De-SPAC Transaction shall be introduced so that the Successor Company could have sufficient time to restore the public float during the grace period.

**Question 54**

Are the shareholder distribution proposals set out in paragraphs 380 and 382 of the Consultation Paper sufficient to ensure an open market in the securities of a Successor Company or are there other measures that the Exchange should use to help ensure an open market?

- (●) **Yes**
- ( ) No

Please give reasons for your views.

## Question 55

Do you agree that SPAC Promoters should be subject to a restriction on the disposal of their holdings in the Successor Company after the completion of a De-SPAC Transaction?

- (●) **Yes**
- ( ) No

Please give reasons for your views.

A lock-up period imposed on the SPAC Promoters will align the interests of the SPAC Promoters with other stakeholders.

## Question 56a

Do you agree that the Exchange should impose a lock-up on disposals, by the SPAC Promoter, of its holdings in the Successor Company during the period ending 12 months from the date of the completion of a De-SPAC Transaction?

- (●) **Yes**
- ( ) No

Please give reasons for your views.

See response of question 55 above.

## Question 56b

Do you agree that Promoter Warrants should not be exercisable during the period ending 12 months from the date of the completion of a De-SPAC Transaction?

- (●) **Yes**
- ( ) No

Please give reasons for your views.

See response of question 55 above.

**Question 57**

Do you agree that the controlling shareholders of a Successor Company should be subject to a restriction on the disposal of their shareholdings in the Successor Company after the De-SPAC Transaction?

- (●) **Yes**
- ( ) No

Please give reasons for your views.

**Question 58**

Do you agree that these restrictions should follow the current requirements of the Listing Rules on the disposal of shares by controlling shareholders following a new listing (see paragraph 394 of the Consultation Paper)?

- (●) **Yes**
- ( ) No

Please give reasons for your views.

**Question 59**

Do you agree that the Takeovers Code should apply to a SPAC prior to the completion of a De-SPAC Transaction?

- (●) **Yes**
- ( ) No

Please give reasons for your views.

**Question 60**

Do you agree that the Takeovers Executive should normally waive the application of Rule 26.1 of the Takeovers Code in relation to a De-SPAC Transaction, the completion of which would result in the owner of the De-SPAC Target obtaining 30% or more of the voting rights in a Successor Company, subject to the exceptions and conditions set out in paragraphs 411 to 415 of the Consultation Paper?

- (●) **Yes**
- ( ) No

Please give reasons for your views.

**Question 61**

Do you agree that the Exchange should set a time limit of 24 months for the publication of a De-SPAC Announcement and 36 months for the completion of a De-SPAC Transaction (see paragraph 423 of the Consultation Paper)?

- (●) **Yes**
- ( ) No

Please give reasons for your views.

**Question 62**

Do you agree that the Exchange should suspend a SPAC's listing if it fails to meet either the De-SPAC Announcement Deadline or the De-SPAC Transaction Deadline (see paragraphs 424 and 425 of the Consultation Paper)?

- (●) **Yes**
- ( ) No

Please give reasons for your views.

**Question 63**

Do you agree that a SPAC should be able to make a request to the Exchange for an extension of either a De-SPAC Announcement Deadline or a De-SPAC Transaction Deadline if it has obtained the approval of its shareholders for the extension at a general meeting (on which the SPAC Promoters and their respective close associates must abstain from voting) (see paragraphs 426 and 427 of the Consultation Paper)?

- (●) **Yes**
- ( ) No

Please give reasons for your views.

**Question 64**

Do you agree that, if a SPAC fails to (a) announce / complete a De-SPAC Transaction within the applicable deadlines (including any extensions granted to those deadlines) (see paragraphs 423 to 428 of the Consultation Paper); or (b) obtain the requisite shareholder approval for a material change in SPAC Promoters (see paragraphs 218 and 219 of the Consultation Paper) within one month of the material change, the Exchange will suspend the trading of a SPAC's shares and the SPAC must, within one month of such suspension return to its shareholders (excluding holders of the Promoter Shares) 100% of the funds it raised from its initial offering, on a pro rata basis, plus accrued interest?

- (●) **Yes**
- ( ) No

Please give reasons for your views.

**Question 65**

Do you agree that (a) a SPAC must liquidate after returning its funds to its shareholders and (b) the Exchange should automatically cancel the listing of a SPAC upon completion of its liquidation?

- (●) **Yes**
- ( ) No

Please give reasons for your views.

**Question 66**

Do you agree that SPACs, due to their nature, should be exempt from the requirements set out in paragraph 437 of the Consultation Paper?

- (●) **Yes**
- ( ) No

Please give reasons for your views.

The requirements set out in paragraph 437 are not applicable to a SPAC and therefore should be exempted.

**Question 67**

Do you agree with our proposal to require that a listing application for or on behalf of a SPAC be submitted no earlier than one month (rather than two months ordinarily required) after the date of the IPO Sponsor's formal appointment?

- (●) **Yes**
- ( ) No

Please give reasons for your views.

## Question 68

Should the Exchange exempt SPACs from any Listing Rule disclosure requirement prior to a De-SPAC Transaction, or modify those requirements for SPACs, on the basis that the SPAC does not have any business operations during that period?

- (●) **Yes**
- ( ) No

Please give reasons for your views.