

Issued on: 30 October 2021

The Exchange's Consultation Paper
Special Purpose Acquisition Companies (September 2021)

In relation to the captioned consultation paper, The Hong Kong Institute of Directors has the following views and comments.

General Comments

We commend the Exchange for making proposals to introduce a SPAC regime to Hong Kong. For Hong Kong to maintain its competitiveness and remain one international financial centre there is a good reason to offer market options that are on par with others.

The proposals contain many safeguards for investor protection. Understandable. The proposals would limit participation in SPAC securities (prior to a De-SPAC Transaction) to Professional Investors. They are better able to fend for themselves than the investing public.

The investing public will get involved at the De-SPAC Transaction stage – the real IPO so to speak. There will be more eagerness to build in safeguards. Again, understandable.

Our observation is, many of the proposals could still be too restrictive to make the regime not as competitive as it could be. That being so, we can see the rationale for implementing those measures, erring on the side of being conservative and restrictive, at the start of the SPAC regime. Over time the Exchange could consider relaxing the requirements or making other adjustments.

The proposals specify 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. This rationale is to hold SPAC promoters accountable. Consultation Paper para 222. The Consultation Paper does not say much more on the role and utility of INEDs on a SPAC board, whereas the proposals under consultation contain features intending to mitigate risks against over-valuation of targets, against conflict of interests and the over-eagerness to complete a De-SPAC Transaction, etc.

For traditional IPOs, the Listing Rules would only require one-third or a minimum of three INEDs on the issuer's board, so the proposal now under consultation would seem consistent with existing requirements. But INEDs on SPAC boards can be one integral element of the safeguards. We wish the Exchange could have given that aspect some more emphasis. And for us, a move towards majority INED can make INEDs collectively better able to play their director roles. There may be a reason to make SPACs the testing ground for a majority INED regime.

Consultation questions

Subject to the general comments above, we state below our response to specific questions as set out in the Consultation Paper.

CONDITIONS FOR LISTING

Investor suitability

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 (Consultation Paper para 149 refers)?

HKIoD Response:

- AGREE
 - Professional Investors under the SPAC regime proposals will include both Institutional Professional Investors and Individual Professional Investors. We agree that the two categories of investors are better able to fend for themselves, to assess, monitor and mitigate the combination of risks associated with SPACs.

Trading by Professional Investors only

Question 2 If the answer to Question 1 is “Yes”, 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)?

HKIoD Response:

- AGREE
 - The purpose is to limit trading of SPAC securities to Professional Investors only.

Trading Arrangements

Question 3 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? If not, do you have any alternative suggestions?

HKIoD Response:

- APPROPRIATE
 - We agree that SPAC Shares and SPAC Warrants should be permitted to trade separately. The proposal is to limit trading of SPAC securities to Professional Investors only prior to the completion of a De-SPAC Transaction. To not permit separate trading of SPAC Shares and SPAC Warrants, however, could discourage certain types of such Professional Investors from fully participating in the trading of SPAC securities, thereby reducing liquidity and the attractiveness of the SPAC regime as a whole.

Question 4 If you answer to Question 3 is “Yes”, would either Option 1 (as set out in paragraph 170 of the Consultation Paper) or Option 2 (as set out in paragraphs 171 to 174 of the Consultation Paper) be adequate to mitigate the risks of extraordinary volatility in SPAC Warrants and a disorderly market? Do you have any other suggestions to address the risks regarding trading arrangements we set out in the Consultation Paper?

HKIoD Response:

- OPTION 2, allowing both auto-matching of orders with Volatility Control Mechanism and manual trades on SPAC securities
 - We believe some application of the Volatility Control Mechanism would be sufficient, though we concur that we may need a special VCM for SPAC Warrants (and/or SPAC Shares). See Consultation Paper para 174. We would recommend embarking further studies as soon as possible to calibrate those appropriate parameters (price deviation percentages in particular, but also possibly other parameters such as applicable time period, permitted number of triggers per trading session, length of observation period, length of and restrictions for cooling-off periods, etc.)

Open Market Requirements

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?

HKIoD Response:

- AGREE
 - We note that the proposal is to limit trading of SPAC securities to Professional Investors only prior to the completion of a De-SPAC Transaction. The pool of eligible subscribers for SPAC Shares will necessarily be smaller than in a typical IPO (where non-Professional Investors can also participate). We would be looking at a number lower than 300 (the threshold for traditional IPOs).
 - The Exchange takes the view that, by virtue of a focus on quality, the number of investors in a SPAC initial offering will be smaller than it would be for a SPAC regime that does not place such focus. Consultation Paper para 180. More specifically, the Exchange is of the view that the HK\$1 billion minimum threshold for the initial offering will mean they will (have to) attract sizeable commitments from large well-established investors, so to make the number of investors smaller. All probable, though there is the other possibility that, a thing good should make more people wanting a piece of it.
 - On the whole, the 75/30 minimum seems reasonable. We do ask stakeholders to offer their views from the angle of liquidity. Consultation Paper para 183.

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?

HKIoD Response:

- AGREE
 - This conforms to current Listing Rule requirements for traditional IPOs.

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?

HKIoD Response:

- AGREE
 - This conforms to current Listing Rule requirements for traditional IPOs.

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?

HKIoD Response:

- AGREE
 - This conforms to current Listing Rule requirements for traditional IPOs.

Question 9 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 or are there other measures that the Exchange should use to help ensure an open and liquid market in SPAC securities?

HKIoD Response:

- NO STRONG VIEWS
 - We do ask stakeholders to offer their views from the angle of liquidity.

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?

HKIoD Response:

- AGREE
 - Consistent with the restricted marketing imposed on SPAC.

SPAC Shares issue price

Question 11 Do you agree that SPACs should be required to issue their SPAC Shares at an issue price of HK\$10 or above?

HKIoD Response:

- NO STRONG VIEWS
 - We defer to the views of market participants.

SPAC fund raising size

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?

HKIoD Response:

- NO STRONG VIEWS
 - We take it that the size of De-SPAC targets in Asia has been taken into consideration. Consultation Paper para 191.
 - We also take it that HK\$1 billion is the one amount considered right by most market participants. Consultation Paper para 192.
 - The Exchange takes the HK\$1 billion minimum as one aspect of those “high entry points” to help ensure SPACs have the funds to seek good quality De-SPAC Targets. Consultation Paper para 193 to 195. We do note that shortfall of the amount needed can be made up through PIPE investments.

SPAC Warrants

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?

HKIoD Response:

- NO STRONG VIEWS
 - To apply existing requirements relating to warrants with the proposed modifications seems reasonable at the start of the SPAC regime. Over time the Exchange could consider relaxing the requirements.

Question 14 Do you agree that Promoter Warrants and SPAC Warrants should be exercisable only after the completion of a De-SPAC Transaction?

HKIoD Response:

- NO STRONG VIEWS
 - The restriction seems reasonable at the start of the SPAC regime. Over time the Exchange could consider relaxing the requirements.

Question 15 Do you agree that a SPAC must not issue Promoter Warrants at less than fair value and must not issue Promoter Warrants that contain more favourable terms than that of SPAC Warrants?

HKIoD Response:

➤ NO STRONG VIEWS

- The restriction seems reasonable at the start of the SPAC regime. Over time the Exchange could consider relaxing the requirements.

SPAC PROMOTERS AND SPAC DIRECTORS

SPAC Promoters

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?

HKIoD Response:

➤ AGREE

- The requirement seems reasonable.

Question 17 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, or is there additional information that should be provided or information that should not be required regarding each SPAC Promoter's character, experience and integrity?

HKIoD Response:

➤ AGREE

- The requirement seems reasonable. Over time the Exchange could consider adjustments.

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?

HKIoD Response:

➤ NO STRONG VIEWS

- To view favourably those credentials in para 216 as "higher than average standards of ability and experience" seems reasonable, but we caution that past records is no absolute guarantee of future success, and that SPACs are a different animal.

Question 19 Do you agree that at least one SPAC Promoter must be a firm that holds: (i) a Type 6 (advising on corporate finance) and/or a Type 9 (asset management) license issued by the SFC; and (ii) at least 10% of the Promoter Shares?

HKIoD Response:

➤ AGREE

- The requirement seems more stringent than other jurisdictions, but also seems reasonable at the start of the SPAC regime. Over time the Exchange could consider adjustments.

Question 20 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) and if it fails to obtain the requisite shareholder approval within one month of the material change, the trading of a SPAC's securities will be suspended and the SPAC must return the funds it raised from its initial offering to its shareholders, liquidate and delist (in accordance with the process set out in paragraphs 435 and 436 of the Consultation Paper)?

HKIoD Response:

➤ AGREE

- The requirement seems reasonable. SPAC shareholders unrelated to the SPAC Promoter are in a position to approve those material changes.

SPAC Directors

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?

HKIoD Response:

➤ RESERVATIONS

- The Consultation Paper does not say much on the role and utility of INEDs on a SPAC board, whereas the proposals under consultation contain features intending to mitigate risks against over-valuation of targets, against conflict of interests and the over-eagerness to complete a De-SPAC Transaction, etc. For traditional IPOs, the Listing Rules would only require one-third or a minimum of three INEDs on the issuer's board, so the proposal now under consultation would seem consistent with existing requirements. But INEDs on SPAC boards can be one integral element of the safeguards. We wish the Exchange could have given that aspect some more emphasis. And for us, a move towards majority INED can make INEDs collectively better able to play their director roles. There may be a reason to make SPACs the testing ground for a majority INED regime.

CONTINUING OBLIGATIONS

Funds held in trust

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?

HKIoD Response:

➤ AGREE

- We can agree to 100% ring-fencing at the start of the SPAC regime. Over time the Exchange should consider relaxing the ring-fence percentage to be more in line with global practice.

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?

HKIoD Response:

➤ AGREE

- The requirement seems reasonable.

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?

HKIoD Response:

➤ AGREE

- The requirement seems reasonable.

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?

HKIoD Response

➤ AGREE in principle

- The requirement seems reasonable. But we note that other jurisdictions do not require 100% of gross proceeds to be deposited and some may permit certain running costs and expenses of the SPAC be paid out of the proceeds (or the interest income earned). Consultation Paper para 345-346. Conceivably, some costs and expenses inure to the benefit of all SPAC Shareholders who wanted to participate in the game. But the proposals are to make the SPAC Promoter incur all of the expenses to establish and maintain the SPAC. Consultation Paper para 232 & 350. The Exchange may want to give this some further thought.

Promoter Shares and Promoter Warrants

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?

HKIoD Response:

➤ NO STRONG VIEWS

- The requirement seems reasonable at the start of the SPAC regime. Over time the Exchange could consider relaxing the requirement.

Question 27 If your answer to Question 26 is “Yes”, do you agree with the restrictions on the listing and transfer of Promoter Shares and Promoter Warrants set out in paragraphs 241 to 242 of the Consultation Paper?

HKIoD Response:

➤ NO STRONG VIEWS

- The requirement seems reasonable at the start of the SPAC regime. Over time the Exchange could consider relaxing the requirement.

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?

HKIoD Response:

➤ NO STRONG VIEWS

- The requirement seems reasonable at the start of the SPAC regime. Over time the Exchange could consider relaxing the requirement.

Trading halts and suspensions

Question 29 Do you agree that the Exchange should apply its existing trading halt and suspension policy to SPACs (see paragraphs 249 to 251)?

HKIoD Response:

➤ AGREE

- The requirement seems reasonable.

DE-SPAC TRANSACTION REQUIREMENTS

Application of new listing requirements

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?

HKIoD Response:

- AGREE generally
 - Essentially, the proposal is to deem the De-SPAC Transaction a new listing, to prevent circumventing the quantitative and qualitative criteria for listing. Our concern is if any is whether the requirement imposed in full will delay deal speed as to reduce the competitiveness and utility of the SPAC regime.
 - Suitability and eligibility requirements
 - Practically, the new listing requirement will apply to the Successor Company alone. Consultation Paper para 263.
 - Management continuity and ownership continuity requirements
 - Multiple De-SPAC Targets have to be under the same management and ownership for the applicable track record period. Consultation Paper para 264. It is conceivable however, that a De-SPAC Transaction could and should look at multiple targets not under the same management/ownership but collectively form an ecosystem of products/services that the Successor Company is to thrive on. The Exchange may want to be more open in considering waivers in the right circumstances.
 - IPO Sponsor appointment
 - We take note that some stakeholders have advised that an IPO Sponsor requirement would reduce De-SPAC deal speed and deal certainty. Consultation Paper para 257-258.
 - Due diligence requirements
 - Reasonable, but see our comments under IPO Sponsor Appointment.
 - Documentary requirements
 - Reasonable.
 - Listing Approval
 - De-SPAC Transaction is not to complete until listing approval is obtained. Reasonable, as it fits with the premise on which a SPAC is to be listed.
 - Initial listing fee
 - Reasonable.

Eligibility of De-SPAC Targets

Question 31 Do you agree that investment companies (as defined by Chapter 21 of the Listing Rules) should not be eligible De-SPAC Targets?

HKIoD Response:

- AGREE
 - We agree that the rules should not preclude specific industries or economic sectors from being eligible De-SPAC Targets. The existence of WVR structures should also not render one ineligible.
 - To specifically exclude investment company, however, would not be a major detriment to the SPAC regime.

Size of De-SPAC Targets

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)?

HKIoD Response:

- AGREE
 - The requirement seems reasonable.

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?

HKIoD Response:

- NO STRONG VIEWS
 - We should not want a De-SPAC Transaction to result in a “cash company” but we take note that the consideration of a De-SPAC Transaction is often settled by shares with the cash raised by a SPAC to be used by the Successor Company for its future development. Consultation Paper para 290. On the count that no other jurisdiction has imposed such a requirement (para 290), the Exchange may want to give this further thought.

Question 34 If your answer to Question 33 is “Yes”, should a SPAC be required to use at least 80% of the net proceeds it raises (i.e. funds raised from the SPAC's initial offering plus PIPE investments, less redemptions) to fund a De-SPAC Transaction?

HKIoD Response:

- NO STRONG VIEWS
 - See our response to Question 33.

Independent Third Party Investment

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? Please give reasons for your views.

HKIoD Response:

- NO STRONG VIEWS
 - We see the rationale for requiring outside independent PIPE investors to complete a De-SPAC Transaction as a surrogate validation on the valuation of the De-SPAC Target, but we may not need to impose a deal structure requirement on De-SPAC Transactions. There are other means to mitigate the risk of over-valuation; for example, by procuring independent valuation. Can we leave this to the SPAC board?

The signaling effect could be stronger (more revealing) if the validation is sought on the SPAC's own volition.

Question 36 If your answer to Question 35 is “Yes”, do you agree that the Exchange should mandate that this outside independent PIPE investment must constitute at least 25% of the expected market capitalisation of the Successor Company, with a lower percentage of between 15% and 25% being acceptable if the Successor Company is expected to have a market capitalisation at listing of over HK\$1.5 billion?

HKIoD Response:

- NO STRONG VIEWS
 - See our response to Question 35.

Question 37 If your answer to Question 35 is “Yes”, do you agree 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 and that its investment must result in it beneficially owning at least 5% of the issued shares of the Successor Company as at the date of the Successor Company's listing?

HKIoD Response:

- NO STRONG VIEWS
 - See our response to Question 35.

Question 38 If your answer to Question 35 is “Yes”, do you agree with the application of IFA requirements to determine the independence of outside PIPE investors?

HKIoD Response:

- NO STRONG VIEWS
 - See our response to Question 35.

Dilution cap

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?

HKIoD Response:

- NO STRONG VIEWS
 - There is good reason to leave matter such as share to warrant ratio in the domain of commercial decisions (Consultation Paper para 304) but anti-dilution measures are an existing feature in the Listing Rules.
 - To have dilution effects fully disclosed is the more salient requirement.

Question 40 If your answer to Question 39 is “Yes”, do you agree with the antidilution mechanisms proposed in paragraph 311 of the Consultation Paper? Please give reasons for your views and provide any suggestions for alternative dilution cap mechanisms that could be considered.

HKIoD Response:

➤ NO STRONG VIEWS

Question 41 If your answer to Question 39 is “Yes”, 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 are met?

HKIoD Response:

➤ AGREE

- This should provide flexibility and add utility to the SPAC regime. To require the earn-out portion to be linked to objective performance targets (such not to be determined by changes in the price or trading volume of the Successor Company’s shares) is reasonable. And the SPAC shareholders have the opportunity to vote on the earn-out portion.

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?

HKIoD Response:

➤ NO STRONG VIEWS

- To hold SPAC Promoter to no more than what they would originally be entitled to seems reasonable.

Shareholder vote on De-SPAC Transactions

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?

HKIoD Response:

➤ NO STRONG VIEWS

- The requirement seems reasonable, but the Professional Investors involved may not need the in-person general meeting to do their real bargaining.

Question 44 If your answer to Question 43 is “Yes”, 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?

HKIoD Response:

➤ AGREE

- There is the need to cleanse the material interest influence, but see our response to Question 43.

Question 45 If your answer to Question 43 is “Yes”, 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?

HKIoD Response:

➤ AGREE

- The requirement seems reasonable as it would allow shareholders to assess and vote on a complete package not piecemeal, but see our response to Question 43.

De-SPAC Transactions involving connected De-SPAC Targets

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?

HKIoD Response:

➤ AGREE

- There is a need to cleanse the tainting of related party transactions.

Alignment of voting with redemption

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?

HKIoD Response:

➤ NO STRONG VIEWS

- We can see the rationale for the proposal well, but it may become too restrictive.

Share redemptions

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?

HKIoD Response:

- AGREE
 - The opportunity to redeem in the event of a vote on material changes, on De-SPAC Transaction or on a delay in the De-SPAC Transaction seems reasonable.

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?

HKIoD Response:

- NO STRONG VIEWS
 - We note that the application of the Takeovers Code will in some situations at least temper the need or reason for a SPAC to implement “bulldog provisions”. Consultation Paper para 354. The Professional Investors involved may be in better position (than public investors, if they are permitted to buy into SPAC Shares) to deal with redemption limits. Full disclosure of redemptions limits (if permitted) is the more salient requirement.

Question 50 Do you agree with the proposed redemption procedure described in paragraphs 355 to 362 of the Consultation Paper?

HKIoD Response:

- AGREE
 - The procedure seems reasonable.

Forward looking information

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?

HKIoD Response:

- AGREE
 - We agree that by its nature forward-looking statements of or relating to a De-SPAC Transaction can be more suspect. To require compliance with existing requirements regarding to forward looking statements seem reasonable.

Open market in successor company’s shares

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?

HKIoD Response:

➤ AGREE

- To require the full 300 shareholders minimum as in traditional IPOs could be onerous given that SPACs are limited to Professional Investors only prior to a De-SPAC Transaction. Consultation Paper para 379. To require “at least 100” should provide a reasonably broad shareholder base for liquidity purposes.

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?

HKIoD Response:

➤ AGREE

- To require “25% public float” and “no more than 50% for the largest three” seems reasonable.

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?

HKIoD Response:

➤ NO STRONG VIEWS

- We tend to believe the measures are sufficient but will defer to the views and input of market participants and stakeholders.

Lock-up periods

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?

HKIoD Response:

➤ NO STRONG VIEWS

- Lock-ups could be left to SPAC Promoters to impose on their own volition; the signaling effect can be stronger that way. To stipulate a lock-up is not unreasonable, however.

Question 56 If your answer to Question 55 is “Yes”, do you agree that: (a) 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; and (b) Promoter Warrants should not be exercisable during

the period ending 12 months from the date of the completion of a De-SPAC Transaction?

HKIoD Response:

- NO STRONG VIEWS
 - If lock-up is to be imposed, 12 months would seem reasonable.

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?

HKIoD Response:

- NO STRONG VIEWS
 - We note that controlling shareholder lock-up is consistent with current Listing Rules requirement.

Question 58 If your answer to Question 57 is “Yes”, 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)?

HKIoD Response:

- NO STRONG VIEWS
 - To follow current Listing Rules requirements seems reasonable.

TAKEOVERS CODE

Application of the Takeovers Code prior to the De-SPAC Transaction completion

Question 59 Do you agree that the Takeovers Code should apply to a SPAC prior to the completion of the De-SPAC Transaction?

HKIoD Response:

- AGREE
 - To provide SPAC shareholders with opportunity to exit (or stay) in a change of control situation. Consultation Paper para 399-400.

Application of the Takeovers Code to the De-SPAC Transaction

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?

HKIoD Response:

- AGREE
 - A different approach is justified to accommodate SPAC features.

Application of the Takeovers Code to the successor company

(Noted. No specific question asked.)

DE-LISTING CONDITIONS

Deadlines

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)?

HKIoD Response:

- NO STRONG VIEWS
 - Rule limit of 24/36 is reasonable, and SPACs should be allowed to voluntarily set shorter deadlines (and yet be able to extend).

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)?

HKIoD Response:

- AGREE
 - Extensions should be granted where there are valid reasons, however.

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)?

HKIoD Response:

- AGREE
 - The Exchange may want to elaborate on the reasons that may support an extension. Consultation Paper para 426.
 - Where binding agreement for a De-SPAC Transaction has been entered into and shareholder approval for it has been obtained, the De-SPAC Transaction deadline should be given leave to extend without further need for a shareholder approval.

Liquidation and De-listing

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) 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?

HKIoD Response:

➤ AGREE

- On the premise that there would be an open process to seek extension with valid reasons, the requirement is reasonable.

Question 65 If your answer to Question 64 is “Yes”, 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?

HKIoD Response:

➤ AGREE

- On the premise that there would be an open process to seek extension with valid reasons, the requirement is reasonable.

CONSEQUENTIAL MODIFICATIONS AND EXEMPTIONS

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?

HKIoD Response:

➤ AGREE

- The exemption fits with the very nature of SPACs.

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?

HKIoD Response:

➤ AGREE

- The one-month lag is already shorter than the two months required for traditional IPOs yet should permit sufficient time for the IPO Sponsor to complete due diligence on the SPAC to be listed.

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?

HKIoD Response:

➤ EXEMPT

- Information to base investment decisions on are always good to have, but we suspect that to require SPACs to fully comply with those disclosure requirements will yield not much more than boilerplate disclosures that are not too useful.

Ends