

UK Adopts New SPAC Listing Rules

24 August 2021

NEW LISTING RULES FOR SPACs COME INTO FORCE

A new listing regime for special purpose acquisition companies (“SPACs”) came into force in the United Kingdom on 10 August 2021. The new rules and related guidance of the Financial Conduct Authority (“FCA”) are intended to make the London Stock Exchange a more attractive and flexible listing venue for SPACs. Following the implementation of the new rules, trading of a SPAC’s shares would not be suspended for the period from announcement of an acquisition until the publication of a prospectus on the combined group, subject to the satisfaction of certain conditions.

BACKGROUND TO THE REFORMS

Earlier this year, we [discussed](#) the [UK Listing Review](#) chaired by Lord Hill, which recommended a number of amendments to the UK’s Listing Rules and prospectus regime. The FCA subsequently published a [consultation](#) on 30 April 2021 proposing certain changes to the UK’s Listing Rules applicable to SPACs, and on 27 July 2021 published a [Policy Statement](#) confirming the final changes being adopted. Driven in part by the popularity of SPACs in the United States, the changes are intended to make the UK listing regime more flexible while ensuring investor rights are appropriately safeguarded and, therefore, promote the London Stock Exchange as a more attractive listing venue for SPACs.

NO SUSPENSION OF TRADING

A key change being introduced is the disapplication of the presumption that trading in a SPAC’s shares will be suspended upon announcement of a potential acquisition target. However, this is subject to the SPAC meeting a number of criteria, as summarised below.

The FCA has confirmed that it will work with issuers and advisers prior to admission to provide them with comfort that trading in the SPAC's shares will not be suspended.

Redemption. Investors must be able to exit their shareholding before completion of the acquisition. In these circumstances, the SPAC must redeem or purchase the shares for a predetermined amount.

Minimum Fundraising. A SPAC will need to raise a minimum of £100 million (in aggregate gross cash proceeds) when its shares are initially listed. This was reduced from a minimum of £200 million originally proposed by the FCA, in response to feedback that the lower threshold better reflected the size of SPACs and acquisition targets that are expected to be seen in UK/European markets.

Ring-fencing. Monies should be segregated and protected via an independent third party, often in a trust account, either to fund an acquisition or be returned to shareholders (in the event of shareholders redeeming shares or if a SPAC is wound up), less any amounts agreed to be used for the SPAC's running costs.

Approvals. Board approval is required for any proposed acquisition, and any director that is, or has an associate that is, a director of the target or its subsidiaries, or has a conflict of interest in relation to the target or its subsidiaries, is excluded from discussions. Further, shareholder approval is also required for any proposed acquisition; in contrast to the market practice in the United States and flexibility of the Dutch rules applicable to Euronext Amsterdam, the UK regime prevents SPAC founders, sponsors and directors, to the extent they are also shareholders of the SPAC, from voting their shares in respect of the proposed acquisition.

Time limits. SPACs must impose a time limit of two years from admission to listing for finding and acquiring a target. This is extendable with shareholder approval by one year, and extendable without shareholder approval by six months in certain limited circumstances, such as when a business combination agreement is entered into but the transaction is not yet completed. Extensions require a notification by way of a regulatory information service ("RIS").

Disclosure. The FCA requires a prospectus to be published in connection with a business combination to list the enlarged group. In addition, investors are to be given sufficient disclosures on key terms and risks, from the SPAC's initial public offering to completion of an acquisition. These may include the expected dilution effect on public shareholders, the proposed timetable, and the evaluation process of the target. While the current UK prospectus regime largely mirrors the EU prospectus regime, the UK government is currently running a [UK Prospectus Regime Review](#) consultation on the UK's prospectus regime, including on changes to the requirements of prospectus

contents and a reduced liability regime for forward-looking information, which may provide further benefits to SPACs once introduced. The consultation will close on 24 September 2021.

Conflicts. The Board must publish a ‘fair and reasonable’ statement, reflecting advice from an appropriately qualified and independent adviser, if any directors have a conflict of interest in relation to the target or its subsidiaries.

The FCA has noted that, if these conditions are met, the SPAC will be treated similarly to commercial companies in terms of the application of the UK Market Abuse Regulation and the FCA’s general suspension powers.

OUR THOUGHTS

SPACs have gained significant popularity in the U.S. markets and on Euronext exchanges in Amsterdam and Paris, while the London market has been considered to lag behind, in part by reason of the presumption of suspension of trading. The new rules address some of the potential deterrent and should make the London Stock Exchange a more attractive listing venue for SPACs. While investors should welcome the introduction of significant investor protection alongside the increased flexibility, the disclosures and voting restrictions still impose additional burdens on SPACs and their sponsors as compared to other listing venues in Europe and the United States. It remains to be seen if there will be an increase in SPAC offering activity in the United Kingdom under the new regime.

Going forward, the FCA is continuing to seek feedback on the UK listing regime more generally, including through its [Primary Markets Effectiveness Review](#), as the FCA hopes to facilitate wider participation in the ownership of public companies.

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Please do not hesitate to contact us with any questions.

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