

30 October 2021

Hong Kong Exchanges and Clearing Limited
Exchange Square
8 Connaught Place, Central
Hong Kong

Via submission link: https://hkex.syd1.qualtrics.com/jfe/form/SV_6EfrhPSSWjCjxps

Dear Sir / Madam,

CPA Australia submission on Special Purpose Acquisition Companies consultation paper

As one of the largest professional accounting bodies in the world, CPA Australia represents the diverse interests of more than 168,000 members working in 100 countries and regions around the world, including over 15,000 members in Hong Kong. We make this submission on behalf of our members and in the broader public interest.

We are supportive of the proposal to establish a listing regime for Special Purpose Acquisition Companies (SPACs) in Hong Kong as this will likely enhance the city's competitiveness and strengthen its position as the leading international financial centre in the region, particularly for the listing and trading of Greater China and South East Asian companies.

Please find enclosed our responses to some of the questions raised in the consultation paper. In preparing this submission, we sought input from member experts in Hong Kong. We offer several suggestions for further consideration by the Hong Kong Exchanges and Clearing Limited (HKEX).

If you have any queries, please do not hesitate to contact Jonathan Ng, Policy Adviser at CPA Australia on jonathan.ng@cpaaustralia.com.au.

Yours sincerely

Deborah Leung FCPA (Aust.)
Executive General Manager, International

Dr Gary Pflugrath FCPA (Aust.)
Executive General Manager, Policy and Advocacy

Encl.

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)? Please give reasons for your views.

We generally agree that given the combination of risks associated with SPACs, the subscription and trading of SPAC securities at the initial stage of a De-SPAC Transaction could be limited to professional investors. However, this may deprive retail investors of the opportunity to invest in firms with high growth potential. We therefore suggest that the HKEX considers allowing limited retail investor participation at the initial stage of a De-SPAC Transaction, such as a 10 per cent limit on retail participation.

The HKEX could also consider allowing limited retail investor participation at the private investments in public equity (PIPE) fundraising stage, such as 10 per cent of the total independent PIPE investment.

If the HKEX agrees to allow retail investors to participate in SPACs, we suggest that it and the Securities and Futures Commission (SFC) support such a development with suitable investor protection measures. This could include:

- investor education on SPACs. We suggest this could involve the HKEX working with the SFC and the Investor and Financial Education Council (IFEC) to run retail investor education initiatives on SPAC.
- strong regulatory focus on SPACs. We suggest that the HKEX and the SFC be allocated additional resources to monitor the SPACs, SPAC Promoters and De-SPAC Transactions.

We also suggest that the HKEX considers announcing that it will undertake a post-implementation review of the SPACs listing regime at appropriate times and adjust the necessary rules and regulations accordingly. For example, if the HKEX decides not to allow retail investors to participate in a De-SPAC Transaction, a post-implementation review could consider this decision in light of experience and determine whether requirements might need to be changed.

Question 2: If your 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)?

Please refer to our response to Question 1.

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?

Referring to our response to Question 1, we are of the view that the HKEX could consider allowing limited participation of retail investors at the initial stage and/or the PIPE fundraising stage of a De-SPAC Transaction.

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? Please give reasons for your views.

We note that as a Successor Company will need to meet all new listing requirements as proposed in the consultation paper, but that some De-SPAC targets, such as early-stage start-ups with high growth potential, may not necessarily be able to meet the minimum fundraising threshold of HK\$1 billion at a SPAC’s initial offering. Therefore, we suggest the HKEX considers whether it should have the authority to lower the initial offering size requirement for exceptional cases.

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? Please give reasons for your views.

We agree with the application of existing requirements to warrants with the proposed modifications. We also suggest that the accounting for warrants, as well as other financial instruments, should follow the relevant applicable accounting standards.

Under the current proposals, the applicable accounting standards are likely to be *Hong Kong Accounting Standard 32 Financial Instruments: Presentation* for classification as debt or equity, and *Hong Kong Financial Reporting Standard*

9 Financial Instruments for measurement. Other standards such as *Hong Kong Financial Reporting Standard 2 Share-based Payment* may also be relevant if the warrants and other instruments are issued to employees.

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? Please give reasons for your views.

As the character, experience and integrity of a SPAC Promoter will need to be included in the Listing Document under the consultation proposals, investors will be able to scrutinise a SPAC Promoter's experience and investment decisions. Therefore, we are of the view that there may not be a need for the HKEX to list SPACs managed by SPAC Promoters that meet higher than average standards of ability and experience.

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 per cent of the Promoter Shares? Please give reasons for your views.

We agree that at least one SPAC Promoter must be a firm that holds a Type 6 and/or Type 9 license. However, given that the firm will already be regulated by the SFC, we believe that the HKEX can consider lowering the requirement to hold at least 10 per cent of the Promoter Shares to at least five per cent of the Promoter Shares. This could potentially lower the barrier for participation in a De-SPAC Transaction for smaller-sized firms holding a Type 6 and/or Type 9 licence.

Acknowledgements

CPA Australia would like to acknowledge the following members for their input and guidance in shaping this submission:

Financial Services Committee – Greater China

- Eden Wong FCPA (Aust.), Chairperson
- Dickson Chan CPA (Aust.)
- Edwin Chan CPA (Aust.)
- Cliff Ip FCPA (Aust.)
- Andrew Lam CPA (Aust.)
- Peter Lee FCPA (Aust.)
- Robert Lui FCPA (Aust.)
- Sunny Ng CPA (Aust.)

Greater Bay Area Committee – Greater China

- Marcellus Wong FCPA (Aust.), Chairperson