June 11, 2021

WHAT YOU NEED TO KNOW ABOUT

The New Rules for SPACs

PRO POINTS

- **Regulators and lawmakers are plotting new** rules for special-purpose acquisition companies, otherwise known as SPACs, that have been one of the hottest stock market investment crazes of the pandemic.

- **SPACs, whose backers include entertainers and** athletes such as Shaquille O'Neal, have no commercial operations but as part of an initial public offering promise investors they will buy private firms that will then be able to raise capital on stock exchanges.

- **Policymakers are concerned that investors don't** understand the risks of investing in SPACs, including the extent to which SPAC sponsors will reap fees from any dealmaking.

- **The added scrutiny comes as the market for SPACs** recently cooled off, after a boom that eclipsed traditional IPOs.

HOW WE GOT HERE

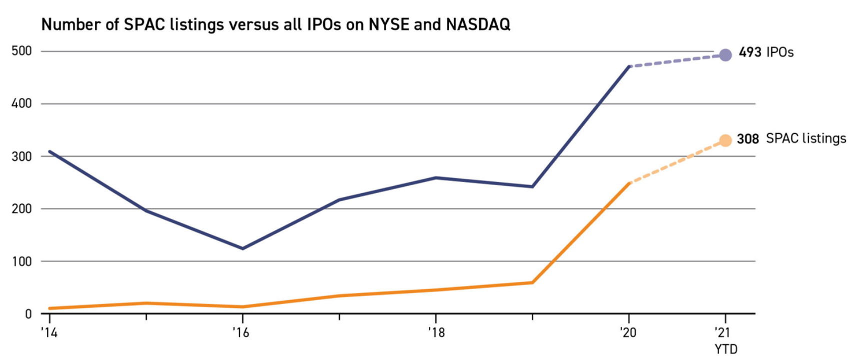
The rise of SPACs is attracting calls for new rules from the Securities and Exchange Commission and Capitol Hill. At issue are concerns that SPAC backers aren't disclosing enough information to investors and should potentially face more legal liability for promises about future returns.

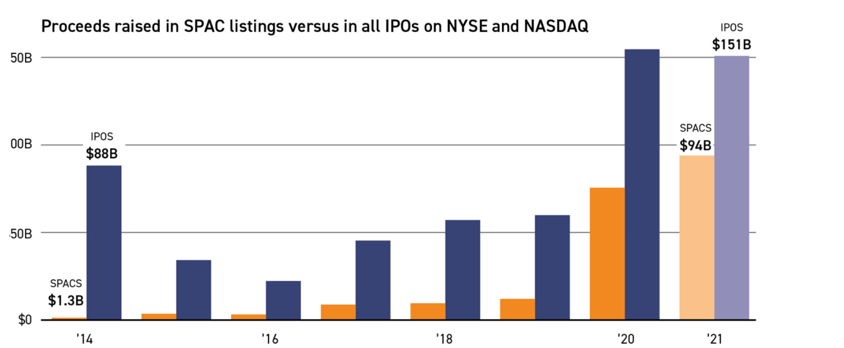
Policymakers are beginning to zero in on SPACs after largely letting the market run wild for the past year.

SPACs aren't new — having been around since the 1990s — but they saw a major upswing in popularity in 2020 as companies sought ways to go public in a rising market and investors were on the hunt for exposure to hot industries like tech. In 2020, they raised a record $83 billion.

SPAC organizers are allowed to list what are essentially shell companies on stock exchanges with the understanding that they will use capital raised to merge with private firms and take them public, generally within two years. If a SPAC fails to finish a deal, it must return money to investors.

The number of SPACs has increased dramatically starting in 2020





Note: 2021 data through June 7, 2021 | Source: NASDAQ

WHAT'S NEXT

SEC Chair Gary Gensler, who has a long track record of cracking down on Wall Street, has tasked the agency's staff with sketching out possible new rules or guidance for SPACs, which he calls "blank check IPOs."

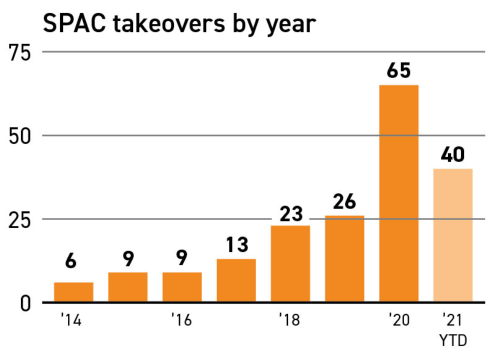
Gensler says the recent surge has raised questions about whether retail investors are receiving accurate information at each stage of the SPAC lifecycle and are facing the brunt of the costs when early investors cash out and advisers reap fees.

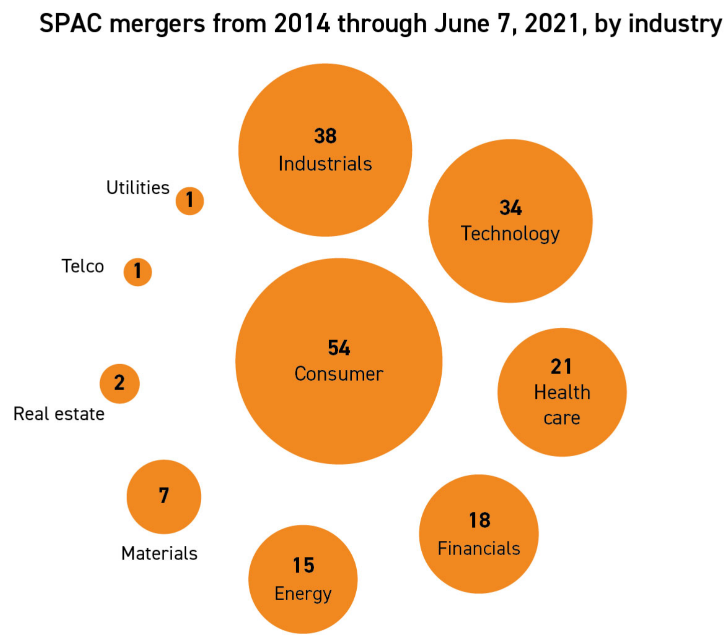
Sen. John Neely Kennedy (R-La.), a member of the Senate Banking Committee, has proposed a bill that would require more disclosures to investors, in light of the concerns that SPAC promoters can extract large fees.

Rep. Brad Sherman (D-Calif.), who chairs the House Financial Services subcommittee on capital markets, proposed a separate bill that would remove legal protections that allow SPAC promoters to avoid lawsuits over statements they make about future business performance when they pitch the investment.

The U.S. Chamber of Commerce warns that removing legal protections would trigger the business group's opposition.

Biggest SPAC targets are consumer, industrial companies





Tech companies have seen 11 completed SPAC deals this far in 2021, the most of any sector. These represent companies that have made a deal to merge with a SPAC to form a new public company. Three sectors are in second place so far in 2021, with seven deals: consumer, health care and industrials.

The consumer sector led SPACs in 2020, with 22 completed SPACs. Industrials trailed in second place, with 11 completions.

Sources: NASDAQ, GICS, Bloomberg Sector BICS. Represents GICS classification at completion, except for the most recent five completions, which are classified by Bloomberg Sector BICS.

POWER PLAYERS

- **John Coates, SEC Acting Director of Corporation Finance:** Coates, who was a Harvard University law and economics professor prior to joining the SEC, leads the agency's work on rules governing investor access to information from publicly traded companies. Coates raised alarms about SPAC transactions in several public statements this spring, including one that warned companies going public through SPAC mergers shouldn't assume less legal risk than with a traditional IPO.

- **SEC Commissioner Hester Peirce:** Peirce, one of two Republican SEC commissioners, is poised to lead internal opposition to new SEC SPAC rules. She says they could reduce the cost-effectiveness of SPACs and restrict investor access to high-growth companies.

- **Bill Ackman, founder of hedge fund Pershing Square:** Ackman, a billionaire investor, launched the largest SPAC ever last summer with the IPO of Pershing Square Tontine Holdings, raising $4 billion. It's now in talks to buy a 10% stake in Universal Music Group, which is notable because unlike a typical SPAC deal it does not involve a full takeover.