SPAC to the future: Part II

August 2021

From 10 August 2021, the long awaited changes to the United Kingdom Listing Association (UKLA) Listing Rules will come into force, bringing the London Stock Exchange (LSE) into line with the special purpose acquisition company (SPAC) model which has become so popular on the US markets.

As we have seen with the US model, the tax flexibility provided by offshore tax neutral companies (typically established in the Cayman Islands) have been a key component to SPAC structuring.

With the Channel Islands boasting more companies listed on LSE than any other finance centre outside of the UK, Guernsey and Jersey companies are the natural fit in replicating the US model for listing SPACs on LSE.

Listing Rule changes

From 10 August 2021 the UKLA amendments to the Listing Rules, which are specifically designed to improve LSE's SPAC offering, will come into effect.

The changes address the key concern that founders and sponsors have previously had when considering listing a SPAC on LSE; that trading in the shares of the SPAC would be suspended by LSE once a potential acquisition is announced.

Once the changes come into effect, LSE will allow a SPAC's shares to remain open for trading following an acquisition announcement, provided that the SPAC:

- provides a 'redemption' option allowing investors to exit a SPAC prior to any acquisition being completed;
- ensures the money raised from public shareholders is ring-fenced;
- requires shareholder approval for any proposed acquisition, and such approval excludes the votes of the founders, sponsors and directors; and
- has a time limit of two years to make an acquisition, with a shareholder option for a one-year extension and a further board option for a six-month extension (if an acquisition is close to completion).

These changes bring the Listing Rules into line with the popular SPAC rules for the US markets, which have seen more than 600 SPACs listed since the start of 2020.

Why would you use a Channel Islands company?

There are a number of reasons why Channel Islands companies are so often used as holding companies for listing on LSE. For more information on the general benefits, see our previous article **here.**

When specifically considering SPACs, Channel Islands companies offer:

- Tax flexibility – where the SPAC will explore potential target companies in multiple jurisdictions, a tax neutral company provides the flexibility to adapt the tax residency of the SPAC and its underlying corporate structure that is essential in creating the most tax efficient post-acquisition structure.
- Legal flexibility – provided that the Channel Islands company will satisfy the solvency test following a redemption, there are no other legal restrictions for the redemption of the Channel Islands company's shares.
- List shares and not depository interests – trading in shares of Channel Islands companies can be settled through CREST, so there is no need to issue depository interests (as would be required for companies outside of the UK, Channel Islands and the Isle of Man).
- Established trust regimes – the Channel Islands allow for the establishment of non-charitable purpose trusts, which are equivalent to the commonly used Cayman Islands' Star Trusts, for holding investor subscription funds prior to the acquisition.

If you would like to discuss establishing a SPAC in the Channel Islands then please don't hesitate to contact one of our key contacts.

For more information please contact:

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