

AQSE Consultation

Changes to the rules governing admission of SPACs to the Access segment of the AQSE Growth Market



In December 2020, AQSE introduced new eligibility criteria to the Access Rulebook for Special Purpose Acquisition Companies (SPACs). We are now consulting on some proposed amendments to those criteria and to the rules governing SPACs.

Background to SPACs and our current rules

Following the consultation last year on changes to the AQSE market, we responded to market demand and in December 2020 introduced new rules relating to the admission of SPACs. These replaced the existing rules applicable to investment vehicles and were intended to provide clarity for advisers and issuers.

A SPAC is currently defined in the Access rulebook as ‘a company of which assets consist solely or predominantly of cash or short-dated securities and/ or its predominant purpose or objective to identify and acquire a suitable business opportunity or opportunities, undertake an acquisition or merger, or a series of acquisitions or mergers.’

SPACs are currently eligible for admission to Access, with a minimum market capitalisation of £700,000 and a minimum free float of 10%. A key aspect of the admission process is that AQSE meets with the executive management of the SPAC to understand its objective in seeking admission to Access and to discuss the company’s strategy and business plan, along with the relevant skills and experience of its board.

Why are we consulting now?

As a Recognised Investment Exchange (RIE), AQSE has an overarching responsibility to ensure that trading on its markets is conducted in an orderly manner so as to afford proper protection to investors.

Now, with almost 12 months gone since the implementation of the SPAC requirements in December 2020, AQSE is concerned that a market capitalisation that is too low, especially when combined with a narrow shareholder base, tends to reduce the prospects of satisfactory liquidity in a SPAC. This in turn increases the risk of a disorderly market, characterised by significant price volatility. High levels of volatility pose a particular risk to retail investors.

We are, therefore, seeking feedback on a number of proposed changes which, we believe, will help to increase potential liquidity and reduce the risk of a disorderly market. The key objective of these changes is to increase confidence in our market and provide clearer signals to stakeholders about the quality of SPACs admitted.

Proposed changes to the rules relating to SPACs

- 1 We are proposing to broaden the scope of the rules that apply to SPACs to include those issuers whose strategy is to finance or invest in securities or businesses. To accommodate this, we propose to create a new category of issuer, defined as a “venture company”, which will be an issuer whose predominant purpose or objective is to undertake an acquisition or merger, or a series of acquisitions or mergers (i.e a SPAC) or to finance and/or invest in securities or businesses (i.e. an investing company).

2 We propose to introduce a requirement that “venture companies” raise at least £2 million prior to, or at admission. Increasing the funds raised at admission should see a widening of the investor base, which will better underpin secondary market liquidity. A more substantial fundraise is also an indicator of greater investor confidence and validation of the investment proposition.

3 We propose introducing a new rule that provides that the market capitalisation of a venture company at admission should be no more than twice its net assets.

This rule is necessary as analysis, challenge, and interrogation of a small-cap venture company’s admission price by institutional investors and brokers is not always available. The functioning of an orderly market is often compromised when founders and other pre-IPO investors retain a majority interest in the equity at admission and naturally support an overweighted valuation. By instituting a cap on valuations at admission, AQSE is seeking to reduce the risk of market volatility and inherent risk to investors. It will also serve to increase investor confidence and enhance the reputation of the market.

4 We propose to introduce an additional right for AQSE to suspend and subsequently withdraw a venture company if it has not substantially progressed its investment plan or completed an acquisition or reverse takeover within two years of its admission. The introduction of a time limit is to ensure the Access segment is utilised by companies that are actively pursuing a strategy that seeks to deliver value to investors.

Q1 Do you have any comments on the proposal to broaden the scope of the rules relating to SPACs with the creation of a new category of “venture companies”?

Q2 Do you agree with the proposed introduction of a minimum fundraise at admission for venture companies?

Q3 Do you agree with the proposed levels of fundraise for venture companies?

Q4 Do you agree with the proposed maximum valuation of ‘twice net assets’?

Q5 Do you agree with the proposal to introduce a 2-year limit within which an investment or acquisition must be made?

Q6 Do you have any other suggestions as to how we might ensure an orderly market in this segment?

Next Steps

We very much look forward to receiving your comments. We ask that responses are directed to: **AQSEBusinessDevelopment@aquis.eu** by no later than 12 November 2021.

© Aquis Exchange PLC 2021. This report is for the general information only and does not constitute investment advice or an offer, solicitation or recommendation to acquire or dispose of any investment or to engage in any other transaction. Although care is taken to ensure that the information is accurate and up to date, Aquis Exchange PLC cannot accept any responsibility for mistakes or omissions.