BETTER FINANCE
The European Federation of Investors and Financial Services Users
Fédération Européenne des Épargnants et Usagers des Services Financiers

CFA Institute

PRESS RELEASE

Levelling the SPACs Playing Field: Investors Call for More Transparency and Better Investor Protection

Although SPACs - Special Purpose Acquisition Companies - have existed for quite some time, their sudden popularity over the last few years has drawn the attention of investors and regulators alike. In their latest joint report, BETTER FINANCE and CFA Institute shed light on the debate around SPACs also known as "blank cheques companies". Based on the input from professional and retail investors and the overall findings of their joint study, BETTER FINANCE and CFA Institute believe that SPACs represent an important tool for the growth of EU capital markets, providing an alternative to traditional IPOs and a faster way for companies to go public. However, safeguards should be in place. The report discusses ways to preserve investor protection for retail investors and calls for more transparency on SPACs in the EU market. It introduces ways to address information disclosure and incentive structures in SPACs.

17 March 2022 | In their latest joint report, BETTER FINANCE and CFA Institute shed light on the debate around SPACs also known as "blank cheques companies". Most stakeholders contributing to the latest joint study agree that retail investors should only be able to invest in Special Purpose Acquisition Companies or SPACs on secondary markets, thereby restricting access. In addition, the study finds that there is also a demand for greater transparency of information on conflicts of interest and the governance of SPACs to incentivise increased retail participation.

The report argues that as it stands information disclosure for SPACs leaves a lot to be desired. Even though SPACs are governed by the EU Prospectus Regulation and MiFID II rules on product governance requirements and thereby provide information on their target markets, seeing the nature of the product, the disclosure of information regarding the expertise of the sponsors and the operating team is more important.

"*For now*," says Josina Kamerling, Head of Regulatory Outreach (EMEA) at CFA Institute, "*the presentation of the sponsors often doesn't amount to more than a marketing gimmick, resulting in superficial disclosure of information, inflated growth prospects, and a lack of information about the management team, their relationship with the sponsors, potential conflicts of interest and the disclosure of past scandals.*"

Because evidence indicates that, due to the length and complexity of prospectuses, individual investors do not obtain the necessary information from these, stakeholders contributing to the study stress the importance of an intelligible and readable "summary prospectus" that would help retail investors navigate the most relevant information. To ensure comparability, the study also reiterates the European Securities and Market Authority's (ESMA) call for uniform disclosure.

Guillaume Prache, Managing Director of BETTER FINANCE, recognises "*the need to simplify disclosure requirements for prospectuses to prevent overburdening companies that seek to be listed,*" but stresses that *"it is crucial to stress that the simplification of the IPO framework should not come at the expense of retail investor protection"*.

Important concerns remain with regards to the misalignment of incentives between the sponsors and retail investors, mainly due to the fact that sponsors have an overriding interest in quickly finding a business combination even though the quality of the deal may not be optimal.

Based on the input from professional and retail investors and the overall findings of their joint study, BETTER FINANCE and CFA Institute believe that SPACs represent an important tool for the growth of EU capital markets, providing an alternative to traditional IPOs and a faster way for companies to go public. That being said, safeguards should be put in place to ensure a high level of investor protection, including:

- considering limiting access for retail investors to SPACs products to secondary markets,
- better alignment of the interests of sponsors with those of investors,
- effective collective redress at the EU level,
- a single regulation and supervision regime at the European by ESMA,
- prospectus compliance with the criteria of uniformity, comparability, and comprehensibility, including information on:
    - the track record and qualifications of the sponsor and the management team of the SPAC,
    - any incentives and potential conflicts of interest of the sponsors and the management team,
    - the relation between the management team and the sponsors,
    - costs and fees arising from both the SPAC IPO and the subsequent initial business combination,
    - information on the strategy to select the target company.

If EU citizens are to obtain long-term sustainable value for their money, it will be crucial to enable retail investor participation in capital markets including through SPACs. A focus on adequate access to information, based on qualitative and comparable data, together with higher levels of financial literacy, would go a long way towards achieving suitable investor protection and would result in diverse investment opportunities for EU households that wish to compensate for inflation.

***

Contact: Chief Communications Officer | Arnaud Houdmont | +32 (0)2 514 37 77 | houdmont@betterfinance.eu