Special purpose acquisition vehicles (SPAC)

What is a SPAC?

A special purpose acquisition company (SPAC) is a type of company formed to raise money from investors which it then uses to acquire another operating business. When the SPAC has found a target and finalised a transaction, the SPAC's shares will be cancelled and the new combined entity would need to make a new listing application.

Para 3.3 of the FCA's publication CP21/10 provides a more detailed summary, and there is an updated diagram in Figure 1 of PS21/10.

SPACs have become a way for many experienced management teams and sponsors to take companies public.

A SPAC raises capital through an initial public offering (IPO) for the purpose of acquiring an existing operating company. SPACs sell their shares, often together with warrants, to investors to finance an acquisition. After the acquisition, the SPAC becomes a *normal* listed company.

The persons responsible for setting up SPACs are the sponsors, who typically have significant expertise in one or more economic sectors and use the SPAC to acquire companies in those sectors. The funding comes from investors.

Why are they under the spotlight?

The SPAC structure means that investors hold the risk rather than the sponsors. There are concerns around the level of costs consumed by these companies. There is also greater license to make bold sales forecasts. Potential investors should be alert to the risk of fraud.

Potential Red Flags

- SPACS that eat into ring-fenced funds, possibly using complex instruments to conceal what they are doing.
- SPACs and acquired firms that have limited or no genuine business activity and are set up purely to make money out of share trading for the directors and insiders
- SPACs operating for years and burning through the cash on unnecessary expenses (we are told Michelin-starred restaurants seem to be popular)
- SPACs that are hiring expensive consultants but achieving nothing in terms of the business plan (much of the funds raised being paid to the directors as consultants)
- SPACs and acquired companies making interest free loans to directors and connected parties, and taking high interest loans from directors and connected parties
- Acquired companies' purported assets do not appear to exist.
- Acquired companies could make loans back to the SPAC.

© ICAEW 2021

- Common directorships across the acquiring and acquired firms, while perfectly acceptable practice, could indicate a scam, and at the very least it means they benefit financially regardless of whether the acquired business takes off.

Suspicious Activity Reporting (SAR)

If you know or suspect money laundering or terrorist financing activity you should make a SAR. Guidance on reporting is available at: nationalcrimeagency.gov.uk

© ICAEW 2021