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SPACs – a new product for the Channel Islands?

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In November 2015, the Channel Islands Securities Exchange (**CISE**) introduced a new chapter to its listing rules to permit special purpose acquisition companies (**SPACs**) to list on CISE.

Whilst Jersey and Guernsey are no strangers to SPACs, historically SPACs have utilised the Channels Islands as a jurisdiction to domicile whilst seeking a listing on a large market such as the London Stock Exchange or AIM, the ability now to list SPACs on the CISE is a development which creates an interesting opportunity for SPAC sponsors, particular smaller sponsors for whom the cost of listing on a market such as the London Stock Exchange may represent a deterrent impeding their ability to getting their SPAC off the ground.

With the Channel Islands expertise in the private equity sector generally, the ability now to list SPACs on CISE is a useful addition to the islands' suit of products in this sector. For the uninitiated, a SPAC is used to raise money via an initial public offering (**IPO**) in order to search the market for a specific acquisition. In recent years equity capital markets have seen a resurgence in the numbers and size of SPACs coming to market to facilitate the participation of investors in private equity investment opportunities.

A number of factors have assisted the resurgence of SPACs, including market conditions for fund raising in the equity capital markets, a return in confidence among investors to deploy their capital for investments, and investors keen to gain exposure to private equity investment opportunities for their investment portfolios.

Among noteworthy recent SPACs, Texas Pacific Group recently raised US$460m on the IPO of Pace Holdings Corp on NASDAQ; Wilber Ross raised US$460m on the IPO of WL Ross Holding Corp on NASDAQ; Nicolas Berggruen's £900m SPAC, Justice Holdings Limited, listed in London and subsequently acquired 29% of Burger King Worldwide, Inc.; Bob Diamond's US$325m SPAC

Atlas Mara Co-Nvest Ltd, listed in London and subsequently acquired banking interests in Africa, and Nomad Holdings Limited which raised US$500m on its IPO in London and subsequently acquired Iglo Food Holdings Limited.

One of key attractions for investors investing in SPACs is their listed company status. Once listed the SPAC's shares will be freely transferable and liquid, enabling investors to exit their investment by selling their shares in the market. Another attraction is the "money back" feature of SPACs, which provides an important protection for shareholders and for some investors, particularly hedge funds, is a clear "win-win".

For promoters and sponsors, using a SPAC has a number of advantages over other forms of private equity investment vehicles. The range of investors able to invest in a listed SPAC will likely be much greater than that available to private equity or other fund structures. The ability to offer sellers of a target business shares in a listed company as part of any consideration package, is another advantage. While SPACs sometimes resemble investment fund structures, the costs associated with establishing and maintaining a SPAC structure are generally lower than those applicable to establishing and maintaining a formal private equity fund structure and, aside from needing to comply with the rules of the stock exchange upon which its shares are listed, with the added benefit of the SPAC itself not needing to be regulated as a fund.

While at the time of writing the CISE has still to see its first SPAC come to market, this can only be a matter of time.

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