



AFM Market Watch

The Dutch SPAC market: an overview

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Introduction

Since 2020, capital markets have seen a surge of Special Purpose Acquisition Companies (better known as ‘SPACs’). A SPAC is a company without business activities that raises capital with the intention to purchase all or part of a non-listed company in the relatively near term. As it is not clear in advance which company SPACs are going to acquire and they do not have any business activities at the time of the IPO, they are also referred to as ‘blank cheque companies’.

SPACs have become particularly popular in the United States. Since 2021 they have also made an appearance - although to a lesser extent - in Europe. Many SPACs were listed on Euronext Amsterdam.

Although SPACs provide a relatively cheap and fast way for private companies to go public, the AFM is concerned about investors’ protection. The AFM regards investing in SPACs as highly complex and thinks it has substantial risks that investors, in particular retail investors, should be aware of. The AFM thinks SPACs are suitable for only a (very) limited group of retail investors.

The purpose of this Market Watch is to provide an overview of the SPAC market in the Netherlands, including the way it is supervised by the AFM, and to create awareness about the risks involved with investing in SPACs.

The first section explains how SPACs work. The second section provides an overview of the SPACs listed in the Netherlands and developments in 2021. The third section addresses the risks and downsides of investing in SPACs. The fourth section is focused on how SPACs are supervised and what investors should be aware of when investing in SPACs.

This Market Watch consists of two parts: (i) a lead article about the SPAC market in the Netherlands and (ii) a short facts and figures section about the number of Suspicious Transactions and Order Reports (STORs) and market abuse equity alerts in 2021.

1. What are SPACs?

A SPAC is a listed shell company without business activities that raises public capital through an initial public offering (IPO) with the ‘special purpose’ to acquire or merge with a private

company. As a result, the private company uses the SPAC to go public (have its shares admitted to a regulated market). SPACs have become a popular way to go public, because they provide a faster and easier route than a traditional IPO. There are three stages:

Stage 1: Before listing on the stock exchange

SPACs are initiated and managed by so-called ‘sponsors’. These sponsors are people who often have experience in financial markets, for instance former CEOs or private equity investors. They set up a SPAC to raise capital to buy all or a part of a non-listed company. Once the SPAC has been incorporated, institutional investors will be able to buy ‘units’ from the SPAC during an IPO, consisting of a share and a warrant or a fraction thereof. These ‘units’ are typically valued at €10.

Stage 2: During the listing, but before the business combination

After the IPO, the units, shares and warrants will be listed on a stock exchange. From this moment the sponsors will start their search for a suitable private company to merge with (the ‘target’). If the initiators are unable to find a target within a (typically) 24-month period, the SPAC will be dissolved. In principle, the holders of shares will then have their investment refunded.

Stage 3: After acquisition of the target

If the sponsors find a suitable target, the shareholders have the option to vote in favour of or against the proposed business combination at a shareholders’ meeting. Shareholders of the SPAC who vote against the proposition have the option to not participate in the deal. In principle, these dissenting shareholders have their initial investment refunded, after deducting of certain costs (this is also an option if a shareholder does not vote at all). In the Netherlands, the business combination will be effected if more than 50% of the shareholders vote in favour. The SPAC is then no longer a ‘shell company’, but a listed company with business activities. At this stage, a share in a SPAC is no longer different from a share of another listed company.

2. The Dutch SPAC market

United States vs Europe

The US experienced a surge in SPACs since the summer of 2020. The number of SPACs has grown to 248 SPAC listings in 2020 and 613 in 2021, raising a total of \$246 billion since 2020. The first

quarter of 2021 alone, US SPACs raised a total of \$97 billion. There were more SPAC IPOs than traditional IPOs: almost two-third of all US listings in 2021 were SPACs.

In Europe, exchanges also saw a significant growth of SPAC listings, although to a lesser degree when compared to the US. In 2020 four SPACs went public, raising a total of approximately €425 million. In 2021 38 SPACs were listed, raising a total of almost €7 billion. As Figure 1 shows, most of the listings took place in the Netherlands, followed by the United Kingdom, France, Sweden and Germany.

In 2021 the Netherlands is the leading jurisdiction for SPAC IPOs in Europe

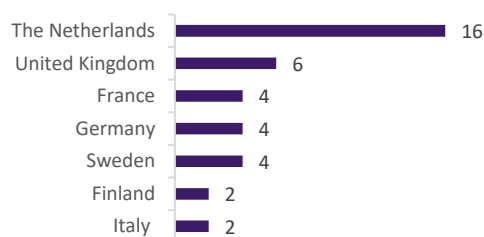


Figure 1: Number of SPAC listings per country in 2021

SPAC listings on Euronext Amsterdam

The Netherlands led the European SPAC market with a total number of 16 SPAC listings in 2021, raising approximately €3.7 billion. This means that almost 40% of SPACs listed on European stock exchanges were listed on Euronext Amsterdam. The number of SPACs listed on Euronext Amsterdam grew significantly in 2021, as is shown by Figure 2.

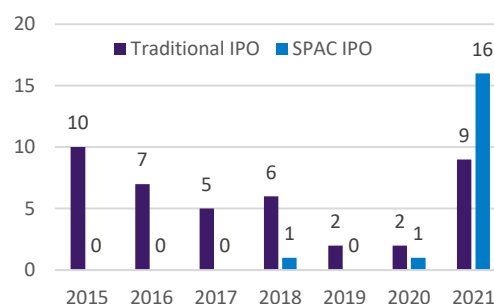


Figure 2: Number of traditional and SPAC IPOs on Euronext Amsterdam from 2015 to 2021

Boosted by SPAC IPOs, in 2021 Euronext Amsterdam experienced a record year of 25 IPOs in total. The number of SPAC IPOs accounted for

almost two-third of the total number of IPOs on Euronext Amsterdam in 2021.

Reasons for SPACs to seek a listing in the Netherlands seem to be related to its deep trading market and its high-quality financial infrastructure. SPACs from the United States also use the flexibility provided under Dutch corporate law to closely mirror the SPAC model used in the United States.

Up to now, only one SPAC listed on Euronext Amsterdam has effected a business combination: Dutch Star Companies One, listed in 2018, combined with telecom company CM.com in 2020. In December 2021, three other SPACs - Dutch Star Companies Two, Odyssey Acquisition and European Fintech IPO Company 1 - announced an agreement to create a business combination with Cabka Group, BenevolentAI and Azerion, respectively. Currently, all other SPACs on Euronext Amsterdam are searching for a target.

The surge in SPAC listings in the Netherlands confronted the AFM with a large number of prospectus applications. The AFM received 40 prospectus applications in 2021, of which 16 were approved. The other applications were withdrawn or are still under review.

All SPACs with an AFM approved prospectus were listed on Euronext Amsterdam, except for one that still has the intention to list its shares on Euronext Amsterdam. One listed SPACs on Euronext Amsterdam, Odyssey Acquisition, had its prospectus approved by the competent authority in Luxembourg (CSSF).

Trading value Dutch SPACs

Despite the relatively large number of SPAC listings, there has not been a high level of trading in SPACs in 2021. Figure 3 shows that the total traded value in SPACs (as reported in MIFD-II data) peaked at a total of about €140 million/day in the first days from listing, and then quickly decreased to less than €10 million/day. When compared to a large cap, the traded value in SPACs is (very) low. For example, the traded value of ASML on Euronext Amsterdam in 2021 alone was between six to eight billion euros per month.

Value traded in SPACs quickly decreases after IPO

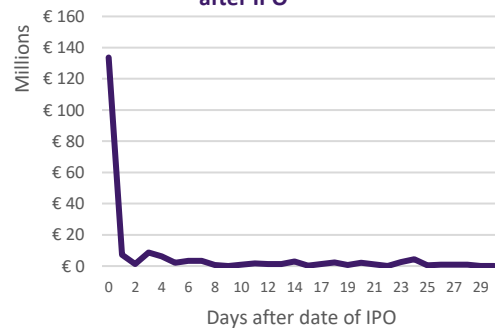


Figure 3: Value traded in SPACs on Euronext Amsterdam in 2021 after date of IPO

3. Risks

Although SPACs provide certain investment opportunities, the AFM believes it is important for investors to pay extra attention to the special characteristics and the substantial risks of investing in SPACs. The various stages of a SPAC vary in terms of risk and complexity. The AFM sees the SPAC securities - units, shares and warrants - during the stage up to the acquisition of the target company as products that are highly complex. To create awareness about this, the AFM addresses the following risks and downsides of investing in SPACs:

There is limited information at the moment of IPO

SPACs have no initial business activities nor historical financial information at the time of the IPO. Investors should therefore be aware that there is limited information to analyse the quality of the company. Investors who participate in the SPAC IPO are completely reliant on the knowledge and skills of the sponsors.

Shareholders may experience significant dilution

SPAC sponsors receive compensation for their work when they effect a business combination. Sponsors will then receive compensation in the form of 20% of the SPAC's shares as a result of the conversion of their so-called 'founder' shares to common shares. These common shares will trade at market value after business combination. Investors, however, should be aware that these founder shares are bought (cheaply) by the sponsors at a nominal value of €0.01 per share. This conversion will thus immediately lead to significant dilution for the other shareholders. Furthermore, at the IPO, the sponsors and initial shareholders also purchase a substantial number of warrants that provide the option to purchase shares at a discounted price after business

combination. The exercise of these warrants may have an additional dilutive effect. In addition, the SPAC may also issue additional shares to finance the acquisition. As a result, shareholders may lose a significant part of their share value.

Did you know?

An American [study](#) analysed the cost structure of US SPACs that merged with a target company between January 2019 and June 2020. As a result of dilution and incurred costs - such as the fees for underwriters, advisers and management - net cash per share is far less than the \$10.00 per share that the shareholders initially attributed to the SPAC. According to the study, the median of 47 SPACs delivered only \$5.70 per share in net cash at its merger, meaning slightly more than half of the initial investment was actually used for the purchase of the target.

Sponsors have potential conflicts of interest

Sponsors only receive compensation when a business combination is effected. If not, the sponsors will lose their initial investment to cover the costs for the first 24-months of the SPAC, often an amount of approximately €2 million. Sponsors may have a commercial incentive to avoid a no-deal, which may lead to sponsors identifying and acquiring a low-quality target or - when the deadline approaches - any target. They may also fail to do acceptable due diligence due to time constraints. Investors should therefore be aware that even a 'bad' business combination may be in the interest of the sponsors.

There is stiff competition to find a suitable target

Currently more than 500 SPACs are active in the United States and more than 40 in Europe. They all search for a suitable target, which are scarce. This means that there is stiff competition among sponsors to find a target within the 24-month deadline period. Increased competition between SPACs may lead to an unfavourable negotiation position for the sponsors. As sponsors only receive compensation when a business combination is effected, sponsors may be inclined to accept unfavourable deals. This may result in SPACs bringing weak companies public, resulting in share prices that are (much) lower than the initial IPO share price.

4. SPAC supervision

Although there is no specific legal regulatory framework for SPACs, there is existing regulation on the basis of which the AFM supervises SPACs.

On the one hand, the AFM supervises investment firms located in the Netherlands that manufacture or distribute securities (units, shares, warrants) of SPACs in the Netherlands. These firms have to meet the product governance requirements, which means that they are responsible for determining the right target market for the product and for ensuring that products do not end up outside the identified target market. For example, they must prevent that SPAC securities are distributed to investors for whom the product is not suitable. In the context of product governance, the AFM supervises not only SPACs with their registered office in the Netherlands whose securities are distributed by these investment firms, but also the distribution of securities of SPACs registered in other countries, for example in the United States.

The AFM thinks SPACs are suitable for only a (very) limited group of retail investors in the stages up to the acquisition of the target company. Investment firms manufacturing and distributing SPAC securities in the Netherlands - including SPACs registered in the US - should therefore carefully consider in their product approval process whether retail investors should be able to have access to these investment products. During these stages, these firms should consider not offering SPACs to retail investors.

On the other hand, the AFM supervises the provision of information to investors for SPACs having their registered office in the Netherlands. This means that for these SPACs, the AFM approves the prospectus required for the listing, and reviews whether the ongoing transparency requirements are being met once the SPAC is listed on the stock exchange. These requirements will be explained in more detail below.

The AFM notes that the country in which the SPAC has its registered office is a factor to be considered. Investors should be aware that in general the AFM only supervises the information and transparency requirements of SPACs registered or listed in the Netherlands. SPACs registered in other countries are supervised by

the competent authority in the respective country. For example, the Securities and Exchange Commission (SEC) supervises these requirements for SPACs registered in the US.

Prospectus requirements

SPACs have an obligation to publish a prospectus for the admission of the units, shares, warrants or other transferable securities to trading on a regulated market. If the SPAC has its registered office in the Netherlands, the AFM is the competent authority for the approval of the prospectus. Even if a SPAC has its registered office in a third country, such as the Cayman Islands, the AFM may still be the competent supervisor. Investors should be aware that not all SPACs listed on Euronext Amsterdam are registered in the Netherlands.

At the moment of the IPO, there is less information in a SPAC prospectus than in a 'normal' prospectus. SPACs don't provide any specific information about the potential target, because the target is then still unknown. The prospectus, however, still contains relevant details about the SPAC. For example, regarding the voting and redemption rights, the sponsors' compensation, (potential) conflicts of interest, the costs involved and the dilution scenarios. Considering the importance of these features, the AFM strongly recommends investors to closely read the prospectus before making an investment decision.

Inside information requirements

From the moment of its listing, a SPAC, like any other listed company, needs to comply with the Market Abuse Regulation (MAR). SPACs should ensure that inside information is disclosed as soon as possible in a manner which enables quick access and complete, correct and timely assessment of the information by the public. This requires SPACs to continuously monitor their information position and assess if that information constitutes inside information which directly concerns the SPAC.

During the 24-month period of the SPAC there are several situations that may trigger the obligation to publish inside information. For example, when sponsors exclusively negotiate with a target or on the closing of the deal with regard to a business combination. Managers of SPACs should realise that it is not allowed to delay the public disclosure of inside information unless

it meets the conditions in accordance with Article 17 MAR.

Once SPACs find a suitable target, they should provide detailed information to their shareholders. The details about the proposed business combination are usually presented in a document referred to as the "shareholder circular", which should have a level of disclosure similar to an approved prospectus. Investors, however, should be aware that, unlike the prospectus, the shareholder circular will not be approved by the AFM.

The shareholder circular provides additional information to the approved prospectus that is relevant for investors when deciding to vote for or against the proposed business combination during the shareholders' meeting. Managers of SPACs should be aware that the shareholder circular should not contain inside information, unless the information is disclosed in accordance with the MAR. Shareholders also have the option to redeem their shares. The AFM recommends investors to closely read this document in order to make an informed investment decision.

Notification obligations

SPACs which qualify as an 'issuer' under Section 5:33(1)(a) of the Financial Supervision Act (*Wet op het financieel toezicht*, Wft) fall within the scope of Chapter 5.3. Wft. Transactions in these SPACs are subject to the full regime concerning the disclosure of voting rights, capital, major holdings and capital interests in issuers. Currently 10 SPACs listed on Euronext Amsterdam, however, have the legal form of a B.V. (*Besloten Vennootschap*) and therefore the mentioned disclosure duties in principle do not apply. Investors need to be aware that if a SPAC is reconstituted as an N.V. (*Naamloze Vennootschap*) as a result of a business combination, this would still trigger the disclosure duties under Chapter 5.3. Wft.

There are variations to the way SPACs are financially structured during their IPO. These variations become apparent in and are relevant to the notifications filed in the particular SPACs. SPACs that issue units fall within the scope of Section 5:33 (1)(b) Wft and are part of the total issued share capital, but for other SPACs this is not the case. Investors should be aware these differences exist, as they may affect the amount of information that is required in their (future)

notification of a substantial shareholding. Pivotal sources of information for investors are typically the SPAC-prospectus, the terms and conditions of the various issued financial instruments and the AFM's public registers.

Financial reporting

Once listed, there are many aspects that could be relevant for SPACs when preparing their financial statements. For example, depending on the contractual provisions, the financial instruments issued by SPACs can be classified either as equity or as liability. Also, when the sponsors of a SPAC have a right to share-based remuneration, this may trigger specific reporting requirements.

Investors should be aware that, until the business combination, a SPAC only prepares its audited separate financial statements. SPACs have the choice to prepare these statements on the basis of Title 9 of Book 2 of the Dutch Civil Code or on the basis of EU-IFRS standards. Only after a SPAC has gained control over a target business via a business combination is it required to prepare audited consolidated financial statements on the basis of EU-IFRS.

Alternative Investment Fund

Depending on its characteristics, SPACs may fall under the scope of the Alternative Investment Fund Managers Directive (AIFMD) and may qualify as an Alternative Investment Funds (AIF). This may trigger the requirement of a license for managing an AIF. For example, in case the SPAC has the intention to invest the gross proceeds in other (short-term) financial instruments, the SPAC could (already) qualify as an AIF.

5. Looking forward

In 2021 a relatively large number of SPACs went public on Euronext Amsterdam. It will be interesting to see whether the number of SPAC listings will continue to grow in 2022.

Nevertheless, in 2022 the Dutch SPAC market will enter a new phase when the sponsors of currently listed SPACs will continue their search for a suitable target.

As a result, the AFM expects that this year many SPACs will announce their business combination, leading to situations in which the SPAC will need to disclose new (inside) information. The AFM will perform its task of real-time surveillance of SPACs' price movements and press releases with focus and dedication and will intervene if necessary.

6. Facts and figures

2021	insider dealing	market manipulation	2021 total	2020 total	% change
STORs and other notifications received by AFM (2021 vs 2020)					
Domestic STORs	167	135	302	277	9%
Foreign STORs	236	18	254	243	5%
Total numbers of STORs	403	153	556	520	7%
Other notifications	46	60	106	144	-26%
Total STORs and other notifications	449	213	662	664	0%
Generated AFM Market abuse alerts (T+1) Equity market (2021 vs 2020)					
# Suspicious market abuse alerts - equity	16	329	345	204	69%

In 2021 the number of STORs received by the AFM continued to rise: 302 STORs were received from domestic market participants (9% more than in 2020).

For its market abuse surveillance AFM develops its own alert algorithms with a mix of generic and pattern-based alert models. Both types of alert models strengthen AFM's supervision on market abuse.

AFM's generic alert models search for statistically significant deviations from 'normal' trading statistics, such as volatility, volume, price impact, profit & loss, etc. Deviations in these and other statistics are used to indicate possible instances of market abuse, most often manipulation cases. For instance, most market manipulation strategies aim to move the price or spread of a financial instrument.

And traders using inside information in general try to build a position before the event will get public. AFM's pattern-based alert models consist of a string of rules that try to identify a specific market abuse strategy.

AFM's equity market abuse alert models generated 345 cases of possible market abuse for 2021. This does not automatically mean that the AFM started 345 investigations.

In-depth follow-up analysis can lead to a different conclusion. Furthermore, a reoccurring/ multiple strategy market abuse case can trigger multiple alerts for the same case.

For more information about the prevention and detection of market abuse and reporting of STORs, see also edition 4 of the AFM Market Watch: [AFM Market Watch | Topics AFM | AFM Professionals](#)

More information about the obligation for regulated firms to notify the AFM of any reasonable suspicion of attempted or actual market abuse can be found [here](#).



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