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The AMF publishes a study on the development of the SPAC market and its challenges

The study describes the structure, expansion, benefits and risks of the Special Purpose Acquisition Companies (SPAC) market. It details the significant development of SPACs in the United States and their expansion in Europe where they are opening a new route to listing.

Operational structure and growth of SPACs

SPACs are listed vehicles with no operational purpose that aim to merge with an unlisted company - thus allowing the said company to go public. In the absence of a merger within the prescribed time, the SPAC is liquidated. However, within a flexible regulatory framework, SPACs take specific, variable and complex forms depending on the interests of stakeholders and applicable law. Their structure therefore evolves depending on market forces.

Widely promoted, SPACs have experienced very strong growth in the United States. Funds raised were less than 2% of those of IPOs until 2014. They were at 18% in 2019 and 45% in 2020. They are developing today in Europe, particularly in the Netherlands and France. France had counted two until then. It approved three in June 2021 alone.

The study also highlights the benefits of SPACs

After years of listing attrition, SPACs appear as an innovation for primary stock markets. They open a path to listing, an exit for private equity, and offer growth prospects for stock

exchange financing.

The advantages in terms of access to the listing of target companies - the reduction in the time to IPO, the guarantees offered by pre-negotiated IPO prices - do not appear, given the anchoring of their regime in existing company and M&A laws, to harm unduly other listing methods (IPO; direct listing).

Vehicles that present risks

Their changing and complex legal structures make them suitable for institutional investors capable of exercising critical views on the proposed arrangements, their stakeholders' incentives and the valuations. The materiality of conflicts of interest is attested in the United States, where the founders maintained high profitability post-merger despite generally negative performance for the remaining holders.

Europe: limited marketing to a large audience to date

The craze for SPACs also underscores the risks of market mispricing – regarding both SPAC shares and acquisition targets. Growth of SPACs and their operations at international level indicates a need for coordination of the authorities, as applicable regimes retain a strong anchoring at national level.

In a context of rapid changes in market practices, the ability of SPACs to promote good information and fair treatment of investors and to create, ultimately, long-term value, remains to be assessed, particularly in Europe. They therefore seem to justify international monitoring of their activities.

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