هيئة السوق المالية
Capital Market Authority

Guideline for the Establishment, Offering, and Listing of Special Purpose Acquisition Companies (SPACs)

"This guideline is for informational purposes only and does not constitute a substitute for any provisions contained in the applicable laws, regulations, and the Rules on the Offer of Securities and Continuing Obligations enforced by the Capital Market Authority. In the event of any conflict between the contents of this guideline and those rules, the rules shall prevail."

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Contents of the Guideline

Introduction

The Capital Market Authority ("CMA") seeks to enhance the role of the Saudi capital market in meeting the financing needs of the economy by encouraging private sector companies to list on the capital market, as well as by developing the market through diversifying available investment products and mechanisms, thereby contributing to increasing the size and depth of the market.

In line with the CMA's efforts to build an advanced capital market that is open to the world thereby expanding financing opportunities and enhancing the economic and investment capabilities of companies in the Kingdom, which in turn provides a wide range of diverse investment tools and opportunities for all market participants, the Parallel Market (Nomu) was launched on 26 February 2017. It offers several mechanisms that enable small and medium-sized private companies in the Kingdom to access financing through the parallel market via initial public offerings or direct listings, in addition to the recently introduced mechanism allowing listing through SPACs.

This guideline has been prepared as an awareness document to enable capital market participants to understand the mechanism of offering and listing through SPACs.

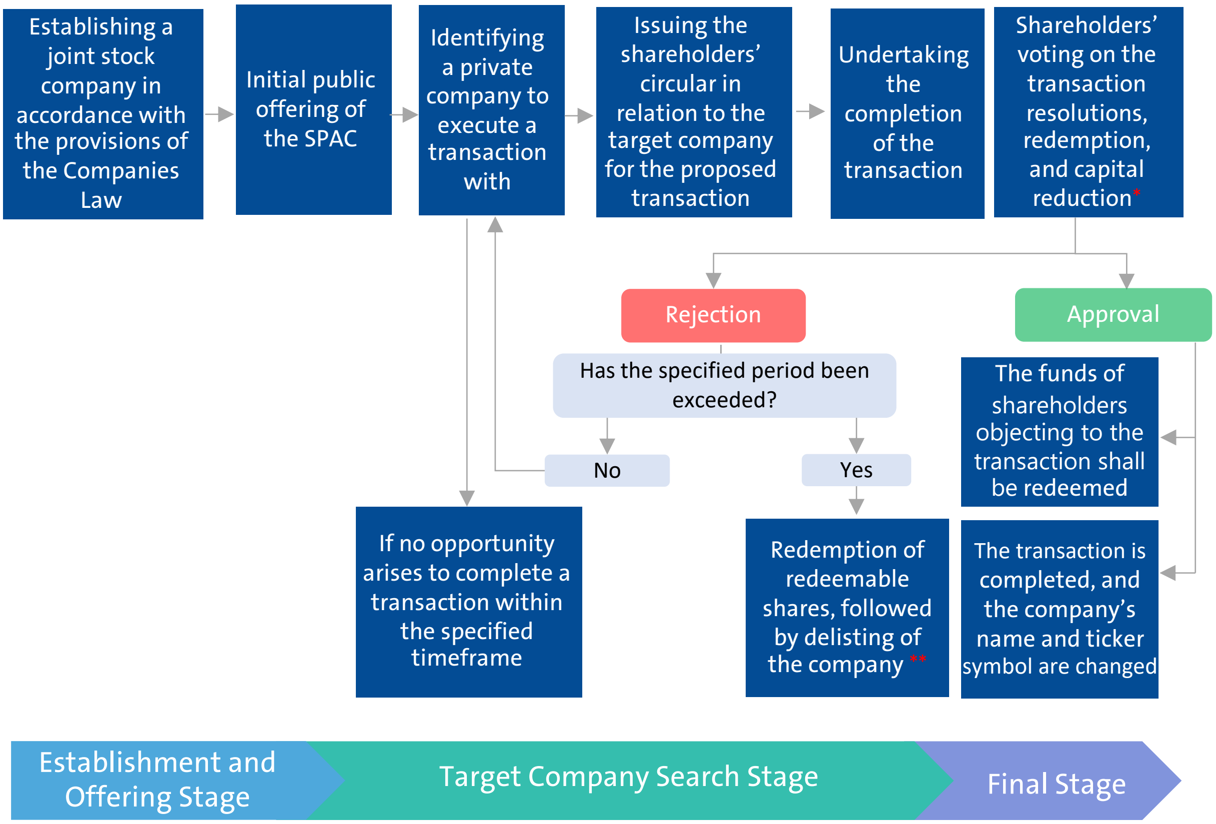
Terms

Special purpose acquisition company (SPAC)	A joint stock company established in accordance with the Companies Law for the purpose of acquiring or merging with an unlisted Saudi company, in accordance with the provisions of Chapter Eight of the Rules on the Offer of Securities and Continuing Obligations.
Sponsor	The entity or management team (a Capital Market Institution licensed to conduct managing investments or managing investments and operating funds) that establishes the SPAC for the purpose of executing a transaction with an existing unlisted company.
Escrow Account	A bank account into which at least (90%) of the SPAC's capital is deposited, and which is subject to the restrictions specified under the Rules on the Offer of Securities and Continuing Obligations.
Target Company	An unlisted Saudi company that the SPAC intends to acquire or merge with, and which meets the conditions and criteria set out in the prospectus.

What are Special Purpose Acquisition Companies (SPACs)?

They are a type of joint stock company established without operational activities, which raises funds through an initial public offering (IPO) and allocates shares to subscribers. The company is then listed on the Parallel Market with the objective of acquiring or merging with an unlisted Saudi company. Its shares are subsequently traded, and it becomes subject to continuing obligations in the same manner as any other listed company. The proceeds from the subscription are thereafter deposited into an escrow account.

Diagram illustrating the stages of establishment, offering, target company search, and completion of the lifecycle of a SPAC.



The following pages outline the key regulatory requirements for each stage separately

*The transaction shall be conditional upon the approval of the Extraordinary General Assembly for the redemption of redeemable shares held by shareholders objecting to the transaction, and for the reduction of capital for the purpose of executing the redemption right, in compliance with the provisions on capital reduction under the Companies Law and its Implementing Regulations.

** The company's listing shall be cancelled upon the occurrence of any of the delisting events set out in the Listing Rules.

Exit scenarios for the target company's investors

1

No exit by the target company's investors

2

A partial exit of the target company's investors

3

A full exit of the target company's investors

A transaction between a listed company (SPAC) and an unlisted company (the target company), resulting in the ownership of the target company by the shareholders of the SPAC, with no exit by any of the target company's shareholders. The structure of the transaction entails an increase in the target company's capital, which varies depending on the agreement between the parties (either maintaining both entities, merging them, or winding up one of them).

A transaction that may result in a partial exit of investors in the unlisted company (the target company) in exchange for cash consideration paid from the SPAC's escrow account.

A transaction resulting in the acquisition by the SPAC of all shares in an unlisted company (the target company), with no increase in the SPAC's capital. Subsequently, the assets may be transferred and the legal entity of the target company terminated, or both entities may be maintained, or a merger may take place (a merger of a company into its acquiring parent company), depending on the terms of the transaction.

Key requirements for the establishment and offering of SPACs:

1	**Sponsor**	The Sponsor shall be a Capital Market Institution licensed to carry out the activity of managing investments and operating funds or the activity of managing investments. The sponsor shall not act as a financial Advisor to the target transaction.
2	**Company Structure**	The SPAC shall be a joint stock company established in accordance with the provisions of the Companies Law.
3	**Company Activity**	The business activity of the SPAC shall be limited to (investment companies' activities).
4	**Sponsor ownership**	The sponsor's ownership shall represent (5%) at least of the SPAC's capital and (20%) at most, and its shares shall be ordinary shares and fully paid.
5	**Offering and registration application submission**	The offering and registration application shall be submitted to the CMA, accompanied by the prospectus and the Articles of Association, to obtain the CMA's approval for the offering and listing on the parallel market.
6	**SPAC Capital**	The SPAC's capital shall not be less than SAR 100 million after the end of the offering period.
7	**Type of offered shares**	The offered shares to shareholders shall be redeemable shares, at the shareholders' option.
8	**Articles of Association**	The Articles of Association shall clearly include details of the escrow account, restrictions on the sponsor's shares, and the shareholders' redemption right.

Key requirements for the establishment and offering of SPACs:

9 Prospectus

Submission of a prospectus in accordance with Annex (26) of the Rules on the Offer of Securities and Continuing Obligations, including the requirements set out therein, including but not limited to:

- An overview of the SPAC sponsor.
- The specified timeframe for completing the transaction with the target company.
- The conditions and criteria for identifying the target company, including sector and nature of business.
- The sponsor's strategy for sourcing and identifying target companies.
- Any discussions conducted by the sponsor prior to submitting the SPAC offering, stating for each company: (sector and nature of business of the target company, and the extent to which it meets the defined criteria).
- The potential dilution of shareholders' ownership in the SPAC if the transaction results in a capital increase through the issuance of new shares in the company.
- The use of proceeds from the investment of amounts held in the escrow account, and the mechanism for addressing any losses that may arise from such investments.
- The sponsor's rights under the SPAC Articles of Association, including clarification of the responsibilities of the sponsor, the board of directors, and senior executives in identifying the target company.

Key requirements during the target company search period:

1 Lock-up period (Sponsor shares)

The sponsor is not permitted to sell its shares in the company during the pre-acquisition listing period. An additional (6) months lock-up period will apply following the completion of the transaction with the target company to the sponsor's entire shares, followed by a further (6) months lock-up period on 50% of the sponsor's shares in the company.

2 Escrow account

At least 90% of the capital of the SPAC shall be deposited in the company's escrow account with a local bank that is not affiliated with the sponsor.

3 Uses of the escrow account

The amounts deposited in the escrow account (representing at least 90% of the SPAC's capital) shall be used for the following purposes:

1) To complete the acquisition or merger transaction with the target company.
2) To pay the redemption value of the redeemable shares in the SPAC under specified conditions.
3) To invest in low-risk money market transactions, low-risk bank deposits with a local bank, and low-risk money market funds established in the Kingdom, provided that any resulting profits shall be used to cover the costs of searching for a target company for acquisition or merger, and to cover the costs required for completing the transaction.

4 Use of remaining funds

The remaining percentage of amounts, which are not required to be deposited in the escrow account pursuant to paragraph (3) above, may be used to cover the expenses related to the offering and the search for a target company for the purpose of completing the acquisition or merger transaction.

Key requirements during the target company search period:

5 **Amendment of conditions and criteria**	The conditions and criteria for identifying the investment opportunity may be amended, subject to the approval of the Extraordinary General Assembly.
6 **Target company**	The target company shall not be listed on any exchange and must meet the listing requirements of the parallel market set out in the Listing Rules. A SPAC shall not be permitted to acquire or merge with a foreign company.
7 **Value of the target company**	The value of the target company for completing the transaction shall represent at least (80%) of the amounts deposited in the escrow account, and the ownership percentage of the SPAC's shareholders shall not be less than (30%) of the shares in the target company after transaction completion. In addition, the target company shall fulfill the conditions for listing in the Parallel Market pursuant to the Listing Rules.
8 **Acquisition period**	The SPAC shall complete the acquisition or merger transaction with a target company within a period not exceeding (24) months from the date of listing its shares in the Parallel Market. This period may be extended for a maximum period of (12) additional months, provided that the approval of the extraordinary general assembly is obtained. The votes of the sponsor and its affiliates, if any, shall not be counted when voting on such extension and the CMA shall be notified thereof.
9 **Borrowing**	A SPAC may borrow, provided that the proceeds shall be intended for financing acquisition or merger with a target company, or for covering the costs required to complete this transaction. The escrow account or any amounts deposited therein shall not be provided as security for borrowing, and the company's total borrowings shall not exceed (25%) of the amounts deposited in the escrow account.
10 **Sponsor's ownership in the target company**	the sponsor or any investment fund managed by the sponsor shall not own shares in the target company, whether directly or indirectly.

Key requirements during the target company search period:

11 Independent valuator

Appointing a financial advisor in the transaction to evaluate the target company for completing the transaction, provided that the financial advisor shall be independent of the sponsor and licensed to carry out arranging activities.

12 Redemption right during the search period

Subject to the provisions governing capital reduction under the Companies Law and its Implementing Regulations, a shareholder shall have the right to redeem their redeemable shares, including redemption for a cash amount from the escrow account in proportion to their ownership in the SPAC*, in the event that the General Assembly approves—without such shareholder's approval—any of the following**:

a) Completion of the acquisition or merger transaction with the target company.
b) Extension of the transaction completion period disclosed in the relevant prospectus.
c) Amendment of the conditions and criteria for identifying the target company.

13 Capital increase

A SPAC may increase its capital, without prejudice to the requirements governing changes in capital. At least 90% of the proceeds from such increase shall be deposited into the escrow account.

14 Continuing obligations

The continuing obligations applicable to companies listed on the parallel market shall apply to SPACs. In addition, they shall be required to disclose, on a semi-annual basis, developments in the offering proceeds and their use, including the escrow account balance and its utilization, as well as the sponsor's efforts in identifying the target company for the proposed acquisition or merger transaction.

15 Corporate Governance Regulations

The provisions of the Corporate Governance Regulations applicable to companies listed on the parallel market shall apply to SPACs.

* Redemption shall be made on a pro rata basis according to each investor's ownership in all remaining funds, including funds deposited in the escrow account.
** The SPAC's shares may be suspended pending the processing of redemption requests.

Key requirements for the final stage:

1 Shareholders' circular

In addition to any other applicable requirements stipulated in the Rules on the Offer of Securities and Continuing Obligations (where applicable), the SPAC shall when identifying a target company for the purpose of completing the transaction, produce a circular for its shareholders stating the information required to enable the shareholders to make an informed vote at the extraordinary general assembly. The shareholders' circular may not be published and made available to the public without submitting a prior request to the CMA and obtaining its approval. At a minimum, the circular shall include the information set out in Annex (29) of the Rules on the Offer of Securities and Continuing Obligations, including the following:

- Summary of the transaction.
- Description and structure of the transaction.
- Share exchange ratio.
- Actions to be taken by the sponsor in the event that some shareholders exercise their redemption right upon not approving the acquisition of the target company.
- Transaction timeline.
- Background of the target company and its operational activities.
- Financial information of the target company.
- Major shareholders of the target company.
- Use of acquisition proceeds in the target company.
- Report of the independent valuator regarding the investment opportunity.
- A number of declarations required from members of the sponsor's board of directors.
- Additional risk factors related to the transaction.
- Disclosure of conflicts of interest.
- Statement of shareholders' rights (redemption, voting, etc.) and the mechanism for their exercise.

2 Approval of the acquisition

Approval of the acquisition shall be subject to obtaining the approval of SPAC's Board of Directors, as well as the approval of the Extraordinary General Assembly. The Extraordinary General Assembly shall, at a minimum, be provided with clarification of the investment opportunity and its alignment with the company's investment opportunity conditions and criteria, as well as the independent valuation of the investment opportunity.

Key requirements for the final stage:

3 General Assembly convened to vote on the acquisition

The completion of the transaction shall be conditional upon the approval of the extraordinary general assembly of the SPAC for the redemption of the redeemable shares in favor of the shareholders objecting to the transaction, the capital reduction for the purpose of effecting such redemption, and the completion of the necessary regulatory procedures as a result of that.

4 Redemption right prior to delisting of the SPAC

Subject to the provisions governing capital reduction under the Companies Law and its Implementing Regulations, a shareholder shall have the right to redeem their redeemable shares, including redemption for a cash amount from the escrow account in proportion to their ownership in the SPAC, in any of the following cases:

1) Failure to complete the acquisition or merger transaction with the target company within the period specified in the Rules on the Offer of Securities and Continuing Obligations.
2) Expiry of the period specified in the Rules on the Offer of Securities and Continuing Obligations without obtaining the necessary approvals for an extension.
3) Exhaustion of all funds not deposited in the escrow account without completing the transaction.

The SPAC shall notify shareholders within (3) business days of their right to redeem their redeemable shares and shall take the necessary procedures to implement such right without delay upon the occurrence of any of the above cases.

5 Continuing obligations

The continuing obligations applicable to companies listed on the parallel market shall apply to the company (the new entity) following its listing.

6 Conversion of share class after completion of the transaction

Upon completion of the transaction with the target company, all redeemable shares shall be converted into ordinary shares.

7 Transfer to the Main Market

While the SPAC itself cannot transfer, the resulting entity may apply for the transfer to the Main Market following the completion of the transaction, provided it meets the requirements.

For more information on the regulation of SPACs, please refer to the following link:

the Rules on the Offer of Securities and Continuing Obligations

Thank you