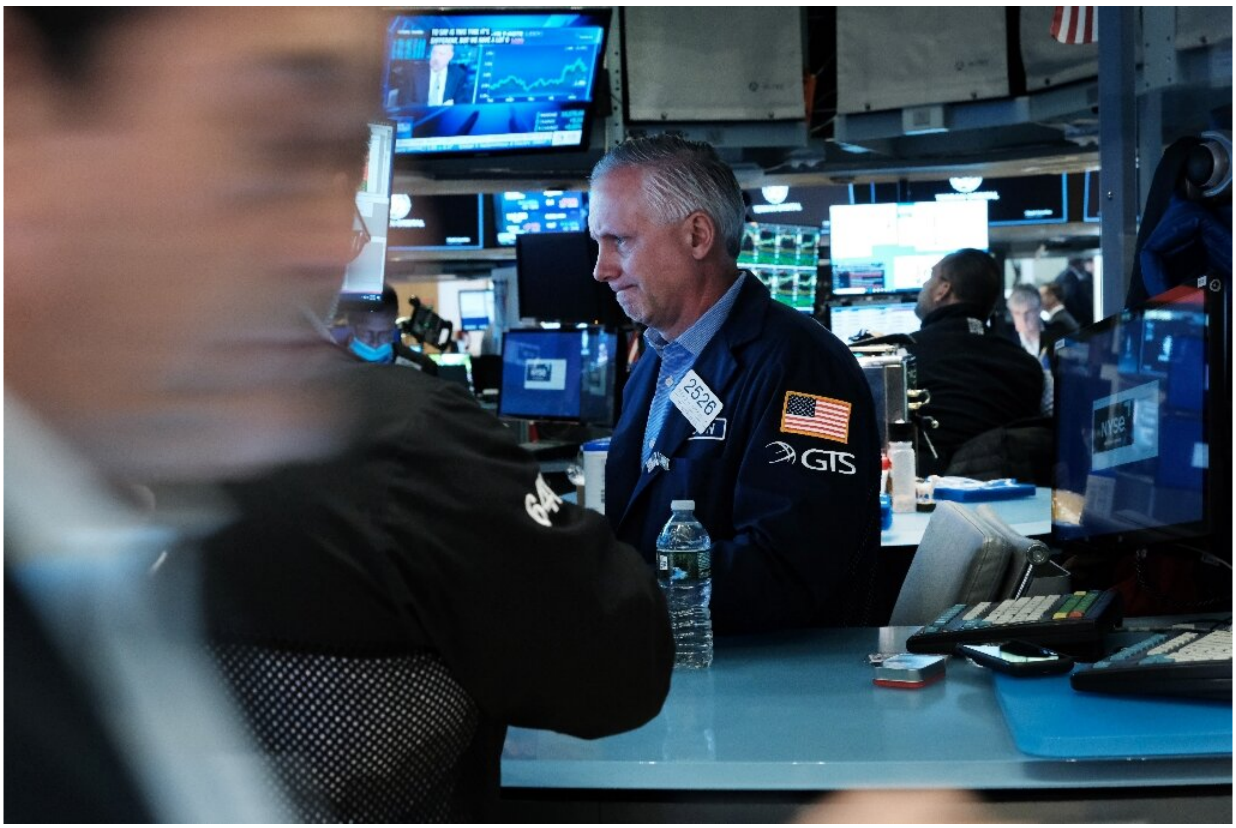
US regulators tighten rules on deals with shell companies

March 30 2022



New rules proposed by the US Securities and Exchange Commission aim to tighten investor protections on transactions involving special purpose acquisition companies.

US securities regulators proposed Wednesday new rules for shell investment companies, tightening a pathway for businesses to go public that has been criticized for skimping on investor protections.

The new rules seek to place firms that are set up with the sole purpose of merging with another entity, known as special purpose acquisition companies (SPACs), on an equal plane with companies participating in traditional initial public offerings (IPOs).

The move comes after a surge of SPAC deals in 2020 and 2021 and with well-known companies ranging from Virgin Galactic and WeWork to several celebrity-linked ventures employing the tactic.

The new rules require additional disclosures about SPAC sponsors, conflicts of interest and sources of equity dilution, said the Securities and Exchange Commission, which will launch a public comment period on its 372-page proposal.

The proposal also removes a SPAC advantage that granted such firms protection from lawsuits if their forecasts are not met—a feature not available to traditional IPOs.

The shift reflects the fact that such projections "may lack a reasonable basis," the SEC said in a fact sheet.

The new measures on SPACs aim to "ensure that investors in these vehicles get protections similar to those when investing in traditional initial public offerings," said SEC Chair Gary Gensler.

"Investors deserve the protections they receive from traditional IPOs, with respect to information asymmetries, fraud, and conflicts, and when it comes to disclosure, marketing practices, gatekeepers, and issuers," he said.

The pace of SPAC offerings has slowed so far in 2022, with 53 deals involving US-listed firms which raised $9.8 billion, according to Dealogic.

In 2021, there were more than 600 transactions raising $162.6 billion, according to Dealogic.

Citation: US regulators tighten rules on deals with shell companies (2022, March 30) retrieved 12 May 2024 from https://techxplore.com/news/2022-03-tighten-shell-companies.html