

## SEC Begins Informal Inquiry into Investment Bank SPAC Practices

Reuters has reported that the Securities and Exchange Commission has sent letters to investment banks regarding the banks' practices with respect to special purpose acquisition companies (SPACs).

According to the report, the SEC is seeking information on SPAC deal fees and volumes; controls over regulatory compliance, including reporting and insider trading; de-SPAC due diligence; and disclosure of compensation of SPAC sponsors.

In light of the SEC's interest in their practices regarding SPACs, investment banks should review and, if needed, consider strengthening procedures regarding the following:

### Initial public offering (IPO)

- Perform comprehensive background checks of SPAC personnel.
- Ensure that investment bank compensation and arrangements are clearly presented.
- Ensure that affiliate incentives and compensation, as well as conflicts of interest, are clearly presented.

### Insider trading—review and monitor effectiveness of:

- Wall-crossing procedures.
- Measures to prevent insider trading by associated persons and those participating in private investment in public equity (PIPE) transactions.
- Procedures to ensure that sponsor and target personnel understand insider trading rules.

### De-SPAC

- Perform comprehensive background checks of sponsor personnel; confirm qualifications.



- Establish standards for due diligence, risk assessment and valuation (in connection with both the de-SPAC transaction and any related PIPE).
- Confirm that management assumptions for projections are reasonably based.
- Ensure that all compensation and incentives to advisers are clearly disclosed.
- Avoid rote management and auditors' due diligence calls.
- Ensure that management incentives and compensation are clearly disclosed.

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