Nothing But The Facts:
Retail Investors and Special Purpose Acquisition Companies

The regulation of special purpose acquisition vehicles ("SPACs") has received significant attention recently from both regulators and legislators. Although there are a number of policy issues involving SPACs, including disclosure requirements and securities law liability standards for the SPAC and its sponsors, much of the recent policy attention has been focused on the role of retail investors in SPAC trading activity. For example, the Chair of the House Financial Services Committee recently expressed concern that “SPAC mergers are structured to ensure Wall Street insiders receive huge profits and retail investors pay the cost.”¹ The Chair of the SEC, Gary Gensler, has noted similar issues, commenting that “[i]t may be that the retail public is bearing much of these costs,” referring both to dilution costs and to fees associated with the various stages of capital raising in a SPAC’s lifecycle.²

In this Nothing But The Facts Statement, the Committee on Capital Markets Regulation seeks to determine the role played by retail investors in the SPAC investment landscape. We find that although investments in SPACs are available to retail investors, such investments are minimal.

Overview of SPACs

A SPAC is a publicly traded shell company created for the sole purpose of merging with a private company, thus bringing the private company public. From the perspective of the private company, a SPAC merger is an alternative method to an initial public offering ("IPO") as a means of becoming a public company. The SPAC entity is created by a sponsor, typically a private equity fund or former industry executive,³ who initially finances the SPAC formation and works with an underwriter to bring the SPAC public through an initial public offering ("IPO"). In return, the sponsor typically receives an equity stake in the SPAC equivalent to 25% of the IPO proceeds, as well as warrants for additional shares. Investors in the SPAC IPO receive equity shares in the SPAC valued at $10 per share and warrants for additional shares. Importantly, each SPAC equity share contains a redemption right that allows the shareholder to redeem the SPAC share for $10 plus interest prior to the merger with a private company. As is the case in any IPO more generally, the SPAC IPO shares are marketed and sold by the investment bank underwriters and are most often allocated to large institutional investors and wealthy individuals with minimal participation by retail investors (if any at all).⁴

³ SPAC sponsors do not need any particular qualifications or relevant expertise.
⁴ See e.g., SEC Investor.gov, Initial Public Offerings, Why Individuals Have Difficulty Getting Shares (noting that “[m]ost underwriters target institutional or wealthy investors in IPO distributions.”), available at https://www.investor.gov/introduction-investing/investing-basics/glossary/initial-public-offerings-why-individuals-
After a SPAC becomes a publicly traded company through its IPO, the SPAC typically has two years to find a private company with which to merge. The shareholder redemption option is triggered after the merger target is announced (but before the merger is completed) at which point shareholders can choose to redeem their shares with the SPAC. Upon redeeming the original equity shares for cash, the SPAC often needs additional financing to complete the announced merger, which is typically done through a private investment in public equity (‘PIPE’). Given that a PIPE is a private placement, securities laws generally prohibit investment from non-accredited (i.e. retail) investors, so only institutional investors and wealthy individuals can invest in the PIPE offering.\(^5\) As a result, the entire SPAC lifecycle, from SPAC IPO to merging with a private company, consists of initial investments by institutional investors with little (if any) involvement from retail investors. The only method for retail investors to invest in the SPAC is to purchase shares in the public secondary markets. As is evident through the facts listed below, such retail investment is extremely limited.

**Fact 1: Institutional investors contribute the vast majority of investment dollars in SPACs.**

Retail investors can gain exposure to SPACs either by purchasing IPO shares from the underwriter or by purchasing shares in the secondary market after the SPAC’s IPO and before the merger. However, data on SPAC ownership shows that retail investors do not participate significantly in SPACs through either of these channels.\(^6\) Aggregating data included in 13F filings, Klausner et al. (2021) find that median ownership by 13F filers (i.e. large institutional investors) was 85\% immediately after the SPAC’s IPO,\(^7\) highlighting the dominance of large institutional investors in the initial IPO allocation of SPAC shares. And not much changes between the IPO and merger as 13F ownership was 87\% immediately before the SPAC merger.\(^8\) Importantly, these findings likely understate the extent of non-retail ownership, since they do not include SPAC ownership by institutional investors that do not file form 13F, nor do they include SPAC ownership by wealthy individuals. In all, these findings show minimal (if any) participation of retail investors in the SPAC IPO and effectively no change in the relative distribution of SPAC equity ownership between its IPO and merger.

**Fact 2: Institutional investors typically redeem their shares directly with the SPAC, rather than selling (to retail or other investors) in the public secondary markets.**

While it is common for institutional investors to exit their equity position in a SPAC prior to the merger with a private company, they do so through redemptions directly with the SPAC rather than selling in the public secondary markets. The median redemption rate for SPAC equity shares in 2019-2020 was 73\% (i.e., half of SPACs had redemption rates over 73\%), while one in

---

\(^5\) To add reference to securities laws re: PIPEs and private placements.
\(^6\) See Klausner et al. (2021).
\(^7\) As evidenced by the first 13F filing after the SPAC IPO.
\(^8\) As evidenced by the last 13F filing before the SPAC merger.
four SPACs had redemptions of 95% or more. Shares that are redeemed directly with the SPAC are removed from public trading, so are not available for purchase in the secondary markets. Therefore, higher redemption rates lead to decreased opportunities for retail investors to invest in SPACs in the secondary markets. In addition, if an institutional investor chooses not to redeem, it is likely because the investor wants continued exposure to the SPAC, so the institutional investor will hold the shares through the merger rather than sell (to retail or other investors) in the secondary market.

Fact 3: Public secondary market trading, which is the mechanism through which retail investors would invest in SPACs, is extremely limited.

The lack of secondary market investment in SPACs by retail investors is further confirmed by the extremely minimal secondary market trading volume for SPACs between IPO and merger. For example, on September 7, 2021, the average trading volume across 435 pre-merger SPACs was less than 0.07% of all outstanding shares. Moreover, fewer than 50,000 shares were traded for 95% of SPACs on September 7th, representing less than $500,000 of trading volume per SPAC, while fewer than 1,000 shares traded for 57% of all SPACs ($10,000 of trading volume). More than 23% of SPACs saw exactly zero shares traded on that date. The sparse trading is evident over longer time periods as well - the 30-day average trading volume for all SPACs was approximately 0.08% of outstanding shares. Given the extraordinarily low secondary market trading volumes for SPACs, it is clear that retail involvement in SPACs, which would occur through secondary market purchases, is quite small.

9 Klausner et al. (2021).
10 Committee on Capital Markets Regulation analysis of Bloomberg data.
11 Id.
12 Id.
13 Id. 30-day averages were calculated for the 391 SPACs that had at least 30 days of trading history as of 9/7/21.