SPARC Comments

The recent SPAC mania has shown how disruptive SPACs can be. It also shows how harmful they can be to regular investors when a terrible deal is made. There have been numerous SPACs that have misled investors by providing a target area and then consummating a transaction with a biotech company. Many SPACs are down at least 50%. The SPAC has been taken advantage of and this should be a sign that change is needed.

Through the eyes of a SPAC investor, this is basically the strategy: pick the best and safest SPAC by looking at the structure and team behind it. However, the best team does not always mean the safest and best deal. AJAX is a prime example of this. Absolute superstars on the team with the founders of Instagram, Square, Chipotle, and 23andMe. The deal that came out of that was a terribly overvalued deal bringing a British online car retailer at a $7 billion valuation. Complete mess. To not be biased as a PSTH investor, with PSTH so far, it has proven that the best structure is also not a reliable metric to determine the best and safest SPAC. However, this is the risk that comes with SPACs.

SPARC provides a new way to determine if a deal is worth an investor's capital. Instead of holding your money hostage in a mystery box hoping for the team you chose to deliver their promise, you can wait for a deal with all your money and only contribute if the deal is something you like. This is a gamechanger for the whole SPAC space. Instead of doing M&A deals left and right with no regard for human life, sponsors will be forced to do quality deals to entice investors to hand over their money. The SPARC II, III, ... tontine SPARs may sound a little weird, but Bill Ackman wants to further incentivize exercise of the SPARC I SPARs. It makes perfect sense. If you want to generalize the structure, perhaps require that the sponsor put up their own money to back the transaction if not enough SPARs are redeemed. That way, SPARC sponsors don't have to keep doing SPARC deals perpetually to incentivize investors to put up enough capital to follow through on the deal.

An argument for not approving SPARC is that it seems to be tailored to Pershing Square. Why is this an issue? Only sponsors who have the talent, resources, and reputation should be able to use this financial instrument. Look at SPACs. You have celebrities and random sketchy people (DWAC) consummating terrible transactions left and right. The only benefit of these terrible deals has been trading the SPAC high redemption pump and dumps. By limiting the sponsors of SPARC to those who have the means to pursue a transaction with quality companies on top of allowing investors to study the deal and the company before putting up capital, retail investors are safer than ever.

Another concern that is brought up by the opposition is that the SPARs are susceptible to pump and dumps. SPAC warrants are literally pennies trading on the major exchanges. Do they experience a 15%+ day occasionally? Yeah. Do people start protesting about these pumps and demanding rule changes to prevent these warrants from going up a lot? No. There are no headlines of warrants pumping 500% daily, so the concern of a pump and dump is not exactly a major one. I see no difference between SPARs and SPAC warrants. If pump and dumps are such a concern with the opponents to this rule, why are they not concerned with regular warrants being pumped? Why not stop warrants altogether from being traded? This is clearly an attack directed towards Pershing Square. If SPAC warrants are allowed to trade on the open market, SPARs should be able to too. IPOF keeps getting pumped on Starlink hopium, so I see no difference in the nature of this concern with a SPAC vs. SPARC.

Democratizing venture capital and private equity investing is one step towards financial equality. Everybody knows the earlier you invest in something, the more likely you are to generate an attractive return in the future. Having a sponsor such as Bill Ackman work on a deal for a naïve investor provides the opportunity for that investor to buy the company at the bottom floor if they so choose is a huge plus.

I think this rule aligns with the SEC's mission of protecting investors. I write in support of SR-NYSE-2021-45.