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28 May 2021

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Rt Hon Rishi Sunak  
Chancellor of the Exchequer  
House of Commons  
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Ladies and Gentlemen,

Re: FCA's Request for Comments on SPAC Consultation Paper CP21/10

**In Summary:** Our advisory recommendations herein are provided as a public service from the perspective of both (i) Japonica Partners as a prospective US\$4+ billion single SPAC sponsor (CP21/10.1.6) and (ii) a firm that advises governments globally on Public Financial Management (PFM).

The UK regulatory framework and exchange guidelines regarding SPACs and the UK post-Brexit financial health as measured by Government Total Net Worth (GTNW) as a percentage of GDP and Citizens' Wealth per person (CW) will have a significant impact on Japonica's decision process in selecting an exchange listing. The UK Government has a very troubling financial performance track record, which can and must be improved for us and others to gain confidence that Brexit will improve, not worsen, this historical performance. To state the obvious, the City of London is far behind in providing a venue for billion plus dollar/pound/euro SPACs. The LSE is playing catch up and is not considered a venue for billion plus SPACs. Given that a SPAC of such size is a desirable candidate for listing, the City of London has to make a very compelling case especially given UK Government historical financial performance. The UK Government must also remedy the 15-month late filing of its Whole of Government Accounts.

Japonica Partners has two main recommendations to improve UK competitiveness in our exchange listing selection process. The first is in line with the technical concerns of FCA and the second is from a global benchmark and best practice PFM perspective.

1. Encourage SPAC sponsors to include in prospectus disclosures the following three tables: a list with details of their global benchmark SPACs, a list of best practices with a comparison to their SPAC, and a table with numbers indicating performance of historical SPACs relative to an appropriate market index.
2. Encourage the relevant government related entities to use in their decision-making process the following two key PFM metrics: GTNW as a percentage of GDP and CW per person.

Succinctly put, the rationale for the two main recommendations is as follows.

1. Improving the disclosure in the SPAC prospectus as specified below would provide a higher quality SPAC universe in which we would be associated and significantly increase the prospects of achieving the goals of this consultation including but not limited to: (i) increasing investor protection, (ii) facilitating capital markets support growth and competitiveness in the entire ecosystem, (iii) increasing investor financial security, and (iv) positioning London listing as location of choice for the world leaders in SPACs (high volume-high economic impact).
2. Using UK GTNW and CW as part of a PFM framework to assess decisions that have both direct and indirect financial impact can provide a more financially solid venue for our and other SPAC listings with other significant benefits including but not limited to: (i) increasing both GTNW and CW over time, (ii) highlighting the potential of smart decision-making to have a very high GDP/GTNW multiplier and CW Created "return", (iii) improving UK economic resilience, and (iv) positively impacting the UK Government and fixed income associated borrowing costs.

**Background:** As requested for our written submission, we are following the protocols specified in the FCA's Consultation Paper CP21/10 "Investor protection measures for special purpose acquisition companies: Proposed changes to the Listing Rules". Also, our advisory comments are provided within the additional context of the UK Listing Review (published March 3, 2021) chaired by Lord Hill and the UK Listings Review: Government response (21 April 2021) statement made by: Rt Hon Rishi Sunak, Chancellor of the Exchequer.

We have also taken into consideration the recent US Securities and Exchange Commission (SEC) promulgations on SPAC accounting/disclosure, the SEC publications on plain English writings and best practice disclosures, the proposed SPAC legislation in the 117<sup>th</sup> US Congress 1<sup>st</sup> Session, US Congress publications on improving financial literacy, and the UK Whole of Government Accounts for 2010 and 2019.

**Japonica Partners Advice - Highlights:**

Our first main recommendation is that SPACs be encouraged to provide the following benchmark and best practice disclosures. As SPACs are blank cheque by design, providing such information to prospective investors would significantly improve the prospects of providing a higher quality SPAC universe in which we would be associated and achieving the four goals cited above among others. Indeed, Lord Hill in his review cites the usefulness of this management process, "we should take the best from what our competitors around the world are doing..."

- I. Global Benchmarks: Include a table of sponsor's global benchmark SPACs with relevant details (See Exhibit A for an illustrative example). Among the many benefits of citing global benchmarks is a rapid increase in investor awareness of the current standards of excellence.
- II. Best Practices: Include a table with a list of best practices from the global benchmark SPACs with a comparison to their SPAC (See Exhibit B for an illustrative example). Among the many benefits of citing best practices is to create a process of continuous improvement and betterment.
- III. Historical Performance: Include a table with numbers indicating performance of historical SPACs relative to an appropriate market index (See Exhibit C for an illustrative example). The primary benefit of relative performance table is to highlight the historical value creation or underperformance of a SPAC sponsor relative to the market. For de novo SPAC sponsors, track records based on Global Investment Performance Standards (GIPS) should be recommended.

From a micro technical perspective, we believe that it should be obvious that an indeterminable suspension provision is not a global best practice and should be updated to conform to the global benchmarks. Others have adequately addressed the common sense of adopting additional micro technical specification, so rather be wastefully redundant, we allocate our time and advice to the unaddressed topics of critical concern to us as a prospective SPAC sponsor.

Our second main recommendation is that relevant government entities be encouraged to replace the UK's anachronistic debt and deficit framework in their decision-making with a PFM framework using GTNW as a percentage of GDP and CW per person achieving a more financially solid venue for our and other SPAC listings as well as achieving the four benefits cited above among others.

While not yet in the headlines, the significantly deteriorating UK Government Total Net Worth as a Percentage of GDP and Citizens' Wealth is even more alarming when compared to global benchmark New Zealand's impressive metrics. As illustrated in Exhibit D, from 2010 to 2019, UK GTNW as percentage of GDP declined by 44 percentage points and UK CW per person declined by 129%. Many expect the 2020 numbers will show a worsening trend, but it is now 15 months after the fiscal year end, and the Whole of Government Accounts are still not published. To illustrate the powerful benefits of these financial metrics, a government that uses these metrics for important financial decisions, the Government of New Zealand GTNW as a percentage of GDP decreased by only two percentage points while CW per person increased by 36%.

It is wise to be concerned about the UK Government Total Balance Sheet, which is undeniably massive at 307% of GDP and has grown at 4.1x the growth of the UK GDP, and its impact on the UK's wider ecosystem.

In addition to better PFM performance metrics, the benefits of a PFM framework can be seen in better financial performance throughout the economy and over business cycles. Recent IMF research has shown that countries with a stronger GTNW (government total assets less government total debts) experience shallower recessions and recover faster in the aftermath of economic downturns. For example, managing GTNW means better managing government assets, which yields higher asset values, higher economic growth, and higher tax revenue.

Research from the University of Oxford supports the logical observation that the most important country-specific fiscal factor driving bond yields appears to be GTNW. The former head of Moody's sovereign bond ratings recently concluded that, "the greatest advance in sovereign risk analysis has been the

development of a measure of Citizens' Wealth. This methodology was first developed by Paul B. Kazarian (Chairman and CEO of Japonica Partners) and his colleagues at the Kazarian Center for Public Financial Management." Overall, Japonica uses 10 key metrics to assess PFM performance.

Lord Hill also offered senior level judgments on the social and economic consequences of the consultation above its requested technical purview.

May we also recommend that the Rt Hon Chancellor include a discussion of the impact of the proposed SPAC regulations on GTNW as a percentage of GDP and CW per person when he presents the next annual Budget for the United Kingdom.

We recognize the responses above are highly summarized and assume a reasonable level of capital markets and PFM sophistication. Accordingly, we welcome the opportunity to answer any questions that you may have and engage in a more detailed discussion. The firm's contact point on this letter is Christopher Magarian at [cmagarian@japonica.com](mailto:cmagarian@japonica.com).

We hereby acknowledge that as requested by FCA this communication is part of the public debate.

Most respectfully,

Paul B. Kazarian  
Chairman and CEO  
JAPONICA PARTNERS and Charles & Agnes Kazarian Foundation  
[www.japonica.com](http://www.japonica.com)  
[www.kazarianfoundation.org](http://www.kazarianfoundation.org)

Definitions (For additional information, see the Citizens' Wealth Glossary the Charles & Agnes Kazarian Foundation website:

1. Government Total Net Worth (GTNW): Government total assets less government total debts.
2. Citizens' Wealth (CW): Total economy GDP plus Government Total Net Worth.
3. GDP "multiplier": Change in GDP per person divided by the absolute value change in Net Worth per person during a specified period.
4. CW Created/Destroyed "return": Change in CW per person divided by the absolute value change in Net Worth per person during a specified period.

**EXHIBIT A – ILLUSTRATIVE EXAMPLE**

## **Six US\$4.0+ Billion SPAC Sponsor Global Benchmarks for Japonica Partners SPAC**

	<b><u>Funds Raised – Billions USD</u></b>	<b><u>Entity</u></b>	<b><u>Key Individual(s)</u></b>	<b><u># of SPACs</u></b>	<b><u>Time Span</u></b>
#1	\$7.4	Churchill, AltC	Michael Klein	8	2018-2021
#2	\$5.8	Trasimene, Austerlitz, etc.	William Foley II	6	2016-2020
#3	\$5.7	Gores, Metropoulos, etc.	Alec Gores	13	2017-2021
#4	\$5.4	Pershing Square, Justice	William Ackman	2	2011-2020
#5	\$4.7	Fintech, FTAC, etc.	Cohen Family (Betsy, Daniel)	15	2015-2021
#6	\$4.3	Social Capital Hedosophia	Chamath Palihapitiya, Ian Osborne	6	2017-2020

Other SPAC sponsors close in size: \$3.0B RMG [James Carpenter/Robert Mancini/Philip Kassin (Riverside)] with 7 SPACs; \$3.0B TPG [Karl Peterson] with 7 SPACs; and \$2.8B JAWS [Barry Sternlicht] with 6 SPACs.

*Prepared by Japonica Partners. 28 May 2021*

**EXHIBIT B – ILLUSTRATIVE EXAMPLE**

**Japanica Partners SPAC Goal is to be Better than the Best Six US\$4+ Billion SPAC Sponsor Global Benchmarks: Summary Terms**

	<u>Terms</u>	<u>Japanica Partners SPAC</u>	<u>Six \$4+ Billion SPAC Benchmarks</u>
#1	Targets	SOEs in Asia and EMEA with opportunities to be transformational investments with low risk high return.	Companies (especially tech) currently in-demand, highly valued, projecting spectacular revenue growth with existing management remaining in control.
#2	Citizens' Wealth	Maximized Government Total Net Worth (GTNW) and GDP, which increases Citizens' Wealth.	Economic benefits of job creation and shareholder wealth creation.
#3	ESG	50% of Japanica potential profits tied directly to ESG metrics.	ESG an aspirational goal with a focus on missions or targets that are significantly socially minded.
#4.	Value Creation	Seeing what others do not see and changing cultures and correcting systemic misconceptions using "education-education-education" (incl. tech) to accomplish what others believe impossible.	Sourcing, structuring, acquiring, and selling businesses; fostering relationships with sellers, capital providers, and target management teams; and negotiating transactions favorable to investors.
#5	Alignment	Goal to perfectly align with zero Japanica profit until shareholder returns exceed 1000bps above MSCI Emerging Markets Index.	Seek to better align interests with investors by having founder shares vest only upon achieving fixed priced stock prices and warrants with prices above IPO.

*Prepared by Japanica Partners. 28 May 2021*

EXHIBIT C – ILLUSTRATIVE EXAMPLE

# SPAC Wealth Creation Track Record

## Illustrative Benchmark SPAC Sponsor vs. NASDAQ

SPAC	SPAC IPO Date	Number of Days to Current	Weighted Days	# of Share (Mil.)	IPO Stock Price	IPO Funds Invested in IBC (Mil.)	% of Total Funds Raised	Current Stock Price 26-May-2021	Value Today (Mil.)	Stock Price Change	Profit (Mil.)	Unit Warrants	Warrant Price	Warrant Investment (Mil.)	Warrant Value (Mil.)	Warrant Profit (Mil.)	Total Profit (Mil.)
1	7-Sep-18	992	98	69	\$10.00	\$690	10%	\$26.37	\$1,820	164%	\$1,130	34,500,000	--	\$397	\$910	\$513	\$1,643
2	27-Jun-19	699	69	69	\$10.00	\$690	10%	\$10.07	\$695	1%	\$5	23,000,000	1.54			\$35	\$40
3	14-Feb-20	1,100	173	110	\$10.00	\$1,100	16%	\$8.24	\$906	-18%	-\$194	27,500,000	1.79			\$49	-\$144
4	30-Jul-20	300	89	207	\$10.00	\$2,070	30%	\$19.99	\$4,138	100%	\$2,068	41,400,000	8.15			\$337	\$2,405
5	16-Dec-20	161	12	50	\$10.00	\$500	7%	\$9.87	\$494	-1%	-\$7	12,500,000	1.33			\$17	\$10
6	12-Feb-21	103	8	55.2	\$10.00	\$552	8%	\$9.80	\$541	-2%	-\$11	11,040,000	1.22			\$13	\$2
7	12-Feb-21	103	20	138	\$10.00	\$1,380	20%	\$9.78	\$1,350	-2%	-\$30	27,600,000	1.01			\$28	-\$2
Total			469			\$6,982	100%		\$9,943	42%	\$2,961			\$397	\$910	\$993	\$3,954
<b>NASDAQ</b>																	
								(Total Return)						<b>Wealth Creation from SPAC Investments</b>			
1	7-Sep-18				7,902	\$690		14,118	\$1,200	74%	\$510			SPAC Profit			\$3,954
2	27-Jun-19				7,968	\$690		13,989	\$1,211	76%	\$521			NASDAQ Profit			\$2,134
3	14-Feb-20				9,731	\$1,100		13,890	\$1,570	43%	\$470			<b>Wealth Creation from SPAC Investment</b>			<b>\$1,820</b>
4	30-Jul-20				10,588	\$2,070		13,830	\$2,704	31%	\$634			<b>Wealth Creation as % of Investment</b>			<b>26%</b>
5	16-Dec-20				12,658	\$500		13,780	\$544	9%	\$44			<b>SPAC Profit/NASDAQ Profit</b>			<b>185%</b>
6	12-Feb-21				14,095	\$552		13,767	\$539	(\$0.0)	(\$12.8)						
7	12-Feb-21				14,095	\$1,380		13,767	\$1,348	(\$0.0)	(\$32.1)						
						\$6,982			\$9,116	31%	\$2,134						

Notes: SPAC Wealth Creation Track Record for illustrative purposes only; assumes all IPO funds invested in IBC (no redemption) and all warrants exercised on cashless basis. Price data from Bloomberg; NASDAQ profit based on total returns. Wealth creation calculated as SPAC profit less index profit.

Prepared by Japonica Partners. 28 May 2021

**EXHIBIT D**

**While Not Yet in the Headlines, the Significantly Deteriorating UK Government Total Net Worth as a Percentage of GDP and Citizens' Wealth is Even More Alarming when Compared to Global Benchmark New Zealand's Impressive Metrics**

	UK Whole of Government			Government of New Zealand		
	<u>2010</u>	<u>2019</u>	<u>Change</u>	<u>2010</u>	<u>2019</u>	<u>Change</u>
Government Total Net Worth % of GDP	-64%	-108%	<b>-44 pps</b>	47%	45%	<b>-2 pps</b>
Citizens' Wealth per person	£9,212	-£2,673	<b>-129%</b>	NZD 68,094	NZD 92,701	<b>36%</b>

*Notes:* Government Total Net Worth data from government annual financial reports; GDP and population data from IMF WEO April 2021 Database. Citizens' Wealth is total economy GDP plus Government Total Net Worth. Data in local currency.

*Prepared by Japonica Partners. 28 May 2021*

**EXHIBIT E**

**It is Wise to be Concerned About the UK Government's Financial Performance as the Government Total Balance Sheet is Massive at 307% of GDP and Has Grown at 4.1x the Growth of the UK GDP**

	<b>2010</b>	<b>2019</b>	<b>2010-2019</b>
Government Total Balance Sheet Per Person (WGA)	£69,726	£100,381	£30,655
GDP Per Person	£25,287	£32,677	£7,390
GTBS Per Person / GDP Per Person	276%	<b>307%</b>	<b>4.1x</b>

Notes: GTBS from UK WGA adjusted for proper recognition of NFA; 2010 adjusted for subsequent restatements. GDP and population from IMF Oct 2019 WEO database.

*Prepared by Japonica Partners. 28 May 2021*