IASB® meeting

Date	**October 2022**
Project	**Special Purpose Acquisition Companies (SPAC): Accounting for Warrants at Acquisition**
Topic	**Finalisation of agenda decision**
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Purpose of the meeting

1. At its September 2022 meeting, the IFRS Interpretations Committee (Committee) decided not to add a standard-setting project to the work plan in response to a request about how an entity accounts for warrants on acquiring a special purpose acquisition company (SPAC). The Committee instead decided to finalise an agenda decision.

2. The purpose of this meeting is to ask International Accounting Standards Board (IASB) members whether they object to the agenda decision, as required by paragraph 8.7 of the IFRS Foundation *Due Process Handbook*.

Background

3. In March 2022, the Committee discussed the request and decided to publish a tentative agenda decision, having concluded that the principles and requirements in IFRS Accounting Standards provide an adequate basis for an entity to determine how to account for warrants on acquiring a SPAC in the fact pattern discussed.

Overview of the feedback on the tentative agenda decision

4. The Committee received 10 comment letters on its tentative agenda decision by the comment deadline.

5. As reported in Agenda Paper 3 to the Committee's September 2022 meeting, many respondents generally agreed (or did not disagree) with the Committee's analysis and conclusions. However, some of these respondents:

   (a) commented on aspects of the Committee's analysis; or

   (b) expressed concerns about potential unintended consequences for other fact patterns.

6. In addition, some respondents:

   (a) disagreed with the Committee's analysis and conclusions. They said the Committee's analysis (i) is not the only way of applying IFRS Accounting Standards to the fact pattern discussed, or (ii) does not seem intuitive.

(b) suggested that the Committee not finalise the agenda decision, but instead refer the matter to the IASB for it to assess whether standard-setting is needed.

7. The Committee considered this feedback and confirmed the analysis and conclusions in the tentative agenda decision. The Committee also made some changes to the wording of the tentative agenda decision to clarify the Committee's analysis and conclusions.

8. Thirteen of 14 Committee members voted to finalise the agenda decision.

9. Appendix A to this paper includes the wording of the agenda decision approved by the Committee.

Questions for the IASB

Do you object to the Committee's:

(a) decision not to add a standard-setting project to the work plan; and

(b) conclusion that the agenda decision does not add or change requirements in IFRS Accounting Standards?

Appendix A—The Agenda Decision

A1. The Agenda Decision below was approved by the Committee at its meeting in September 2022.

Special Purpose Acquisition Companies (SPAC): Accounting for Warrants at Acquisition

The Committee received a request about an entity's acquisition of a special purpose acquisition company (SPAC). The request asked how the entity accounts for warrants on acquiring the SPAC.

In the fact pattern the Committee discussed:

a. the entity acquires a SPAC that has raised cash in an initial public offering (IPO), obtaining control of the SPAC. The purpose of the acquisition is for the entity to obtain the cash and the SPAC's listing on a stock exchange. The SPAC does not meet the definition of a business in IFRS 3 *Business Combinations* and, at the time of the acquisition, has no assets other than cash.

b. before the acquisition, the SPAC's ordinary shares are held by its founder shareholders and public investors. The ordinary shares are determined to be equity instruments as defined in IAS 32 *Financial Instruments: Presentation*. In addition to ordinary shares, the SPAC had also issued warrants to both its founder shareholders and public investors (the SPAC warrants):

    i. *founder warrants* were issued at the SPAC's formation as consideration for services the founders provided.

    ii. *public warrants* were issued to public investors with ordinary shares at the time of the IPO.

c. the entity issues new ordinary shares and new warrants to the SPAC's founder shareholders and public investors in exchange for the SPAC's ordinary shares and the legal cancellation of the SPAC warrants. The SPAC becomes a wholly-owned subsidiary of the entity and the entity replaces the SPAC as the entity listed on the stock exchange.

d. the SPAC's founder shareholders and public investors are not SPAC employees nor will they provide services to the entity after the acquisition.

e. the fair value of the instruments the entity issues to acquire the SPAC exceeds the fair value of the SPAC's identifiable net assets.

Which IFRS Accounting Standard applies to the SPAC acquisition?

Paragraph 2(b) of IFRS 3 states that IFRS 3 does not apply to 'the acquisition of an asset or a group of assets that does not constitute a business'. In such cases, that paragraph requires the acquirer to 'identify and recognise the individual identifiable assets acquired … and liabilities assumed'.

In the fact pattern discussed, the acquisition of the SPAC is the acquisition of an asset or a group of assets that does not constitute a business. Therefore, the entity identifies and recognises the individual identifiable assets acquired and liabilities assumed as part of the acquisition.

What are the individual identifiable assets acquired and liabilities assumed?

In the fact pattern discussed, the entity acquires the cash held by the SPAC. The entity also considers whether it assumes the SPAC warrants as part of the acquisition and, consequently, whether it assumes a liability if those warrants are classified as financial liabilities.

In assessing whether it assumes the SPAC warrants as part of the acquisition, the entity considers the specific facts and circumstances of the transaction, including the terms and conditions of all agreements associated with the acquisition. For example, the entity considers the legal structure of the transaction and the terms and conditions of the SPAC warrants and the new warrants the entity issues.

The entity might conclude that the facts and circumstances are such that it:

a. *assumes the SPAC warrants as part of the acquisition*—in this case, the entity issues ordinary shares to acquire the SPAC and assumes the SPAC warrants as part of the acquisition. The entity then issues new warrants to replace the SPAC warrants it has assumed.

b. *does not assume the SPAC warrants as part of the acquisition*—in this case, the entity issues both ordinary shares and new warrants to acquire the SPAC and does not assume the SPAC warrants.

Additional considerations applicable when an entity concludes that it assumes the SPAC warrants as part of the acquisition

How does the entity account for SPAC warrants assumed as part of the acquisition?

In the fact pattern discussed, the SPAC's founder shareholders and public investors are not SPAC employees nor will they provide services to the entity after the acquisition. Instead, the SPAC's founder shareholders and public investors hold the SPAC warrants solely in their capacity as owners of the SPAC. Therefore, the entity applies IAS 32 to determine whether the SPAC warrants are financial liabilities or equity instruments.

How does the entity account for the replacement of the SPAC warrants?

The entity applies IAS 32 and IFRS 9 *Financial Instruments* to account for the replacement of the SPAC warrants with new warrants.

However, because the entity negotiated the replacement of the SPAC warrants as part of the SPAC acquisition, it determines whether it accounts for any of the new warrants it issues as part of that acquisition. No IFRS Accounting Standard specifically applies in making this determination. Therefore, the entity applies paragraphs 10–11 of IAS 8 *Accounting Policies, Changes in Accounting Estimates and*

Errors in developing and applying an accounting policy that results in information that is relevant and reliable.

Does the entity also acquire a stock exchange listing service?

In the fact pattern discussed, the SPAC's stock exchange listing does not meet the definition of an intangible asset because it is not 'identifiable' as described in paragraph 12 of IAS 38 *Intangible Assets*. Accordingly, the stock exchange listing is not an identifiable asset acquired. Nonetheless, the Committee observed that:

a. paragraph 2 of IFRS 2 states that 'an entity shall apply this IFRS in accounting for all share-based payment transactions, whether or not the entity can identify specifically some or all of the goods or services received … In the absence of specifically identifiable goods or services, other circumstances may indicate that goods or services have been (or will be) received, in which case this IFRS applies.'

b. paragraph 13A of IFRS 2 states that '… if the identifiable consideration received (if any) by the entity appears to be less than the fair value of the equity instruments granted or liability incurred, typically this situation indicates that other consideration (ie unidentifiable goods or services) has been (or will be) received by the entity. The entity shall measure the identifiable goods or services received in accordance with this IFRS. The entity shall measure the unidentifiable goods or services received (or to be received) as the difference between the fair value of the share-based payment and the fair value of any identifiable goods or services received (or to be received).'

The fair value of the instruments the entity issues to acquire the SPAC exceeds the fair value of the identifiable net assets acquired. Therefore, the Committee concluded that, in applying paragraphs 2 and 13A of IFRS 2, the entity:

a. receives a stock exchange listing service for which it has issued equity instruments as part of a share-based payment transaction; and

b. measures the stock exchange listing service received as the difference between the fair value of the instruments issued to acquire the SPAC and the fair value of the identifiable net assets acquired.

Which IFRS Accounting Standard applies to the instruments issued?

Depending on the specific facts and circumstances of the transaction, the entity issues ordinary shares—or ordinary shares and new warrants—in exchange for acquiring cash, for acquiring the stock exchange listing service and for assuming any liability related to the SPAC warrants. The Committee observed that:

a. IAS 32 applies to all financial instruments, with some exceptions. These exceptions include 'financial instruments, contracts and obligations under share-based payment transactions to which IFRS 2 *Share-based Payment* applies …' (paragraph 4 of IAS 32).

b. IFRS 2 applies to 'share-based payment transactions in which an entity acquires or receives goods or services. Goods includes inventories, consumables, property, plant and equipment, intangible assets and other non-financial assets …' (paragraph 5 of IFRS 2).

Therefore, the Committee concluded that the entity applies:

a. IFRS 2 in accounting for instruments issued to acquire the stock exchange listing service; and

b. IAS 32 in accounting for instruments issued to acquire cash and assume any liability related to the SPAC warrants—these instruments were not issued to acquire goods or services and are not in the scope of IFRS 2.

Additional considerations applicable if the entity concludes that it does not assume the SPAC warrants as part of the acquisition

Which types of instrument were issued for the SPAC's net assets and which were issued for the service?

If the entity concludes that the facts and circumstances are such that it does not assume the SPAC warrants as part of the acquisition, the entity issues both ordinary shares and new warrants to acquire cash and a stock exchange listing service. In this case, the entity determines to what extent it issued each type of instrument to acquire (i) the cash, and (ii) the stock exchange listing service. No IFRS Accounting Standard specifically applies to this determination. Therefore, the entity applies paragraphs 10–11 of IAS 8 in developing and applying an accounting policy that results in information that is relevant and reliable.

The Committee observed that:

a. an entity could allocate the shares and new warrants to the acquisition of cash and the stock exchange listing service on the basis of the relative fair values of the instruments issued (that is, in the same proportion as the fair value of each type of instrument to the total fair value of all issued instruments). For example, if 80% of the total fair value of the instruments issued comprises ordinary shares, the entity could conclude that 80% of the fair value of instruments issued to acquire cash also comprises ordinary shares.

b. an entity could use other allocation methods if they meet the requirements in paragraphs 10–11 of IAS 8. However, an accounting policy that results in the entity allocating all the new warrants issued to the acquisition of the stock exchange listing service solely to avoid the new warrants being classified as financial liabilities applying IAS 32 would not meet these requirements.

Conclusion

The Committee concluded that the principles and requirements in IFRS Accounting Standards provide an adequate basis for an entity to determine how to account for warrants on acquiring a SPAC in the fact pattern the Committee discussed. Consequently, the Committee decided not to add a standard-setting project to the work plan.