STAFF PAPER

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IFRS® Interpretations Committee meeting

Project	**Special Purpose Acquisition Companies (SPAC): Accounting for Warrants at Acquisition**
Paper topic	Comments on tentative agenda decision
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Introduction

1. In March 2022, the IFRS Interpretation Committee (Committee) published a tentative agenda decision in response to a submission about how an entity accounts for warrants on acquiring a special purpose acquisition company (SPAC).

2. In the fact pattern the Committee discussed:

   (a) the entity acquires a SPAC that has raised cash in an initial public offering (IPO). 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 provided by the founders. The founders provide no services to the entity after the acquisition.

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

(c) the entity acquires the SPAC by issuing new ordinary shares and 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's warrants. The entity's owners control the group after the transaction. 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 fair value of the instruments the entity issues to acquire the SPAC exceeds the fair value of the identifiable net assets of the SPAC.

3. Appendix A to this paper reproduces the tentative agenda decision in full. The following table summarises the questions the Committee considered in analysing the submission and the Committee's conclusions.

<table>
<tr><th colspan="2">1. Who is the acquirer?</th></tr>
<tr><td colspan="2">The entity applies IFRS 3 in identifying which party is the acquirer in the transaction. In the fact pattern discussed, the entity is the acquirer. Consequently, the acquisition does not meet the definition of a business combination because the acquiree (the SPAC) is not a business.</td></tr>
<tr><th colspan="2">2. Which IFRS Accounting Standard applies to the SPAC acquisition?</th></tr>
<tr><td colspan="2">The acquisition of the SPAC is the acquisition of an asset or a group of assets that does not constitute a business. Paragraph 2(b) of IFRS 3 requires the entity to identify and recognise the individual assets acquired and liabilities assumed as part of the acquisition.</td></tr>
<tr><th colspan="2">3. What are the individual identifiable assets acquired and liabilities assumed?</th></tr>
<tr><td colspan="2">The entity acquires the cash held by the SPAC. The entity also considers the specific facts and circumstances in determining whether it assumes any liability related to the SPAC warrants as part of the acquisition.</td></tr>
<tr><th colspan="2">3.1 Does the entity assume the SPAC warrants as part of the acquisition?</th></tr>
<tr><td>A. SPAC warrants are assumed</td><td>B. SPAC warrants are not assumed</td></tr>
<tr><td>The entity issues ordinary shares to acquire the SPAC and assumes the SPAC warrants as part of the acquisition. The entity issues new warrants to replace the SPAC warrants assumed.</td><td>The entity issues both ordinary shares and new warrants to acquire the SPAC and does not assume the SPAC warrants.</td></tr>
</table>

<table>
<tr><th colspan="2">4. How does the entity account for SPAC warrants assumed as part of the acquisition?</th></tr>
<tr><td>A. SPAC warrants are assumed</td><td>B. SPAC warrants are not assumed</td></tr>
<tr><td>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 in determining whether the assumed SPAC warrants are financial liabilities or equity instruments.</td><td>Not Applicable.</td></tr>
<tr><td colspan="2">4.1 How does the entity account for the replacement of the SPAC warrants?</td></tr>
<tr><td>The entity considers the extent to which it accounts for the replacement of the SPAC warrants as part of the acquisition. If the entity concludes that it accounts for the replacement separately from the SPAC acquisition, the entity applies the requirements in IAS 32 and IFRS 9 Financial Instruments to do so.</td><td>Not Applicable.</td></tr>
<tr><th colspan="2">5. Does the entity also acquire a stock exchange listing service?</th></tr>
<tr><td colspan="2">▪ The SPAC's stock exchange listing does not meet the definition of an intangible asset. Accordingly, it is not an identifiable asset acquired.
▪ Applying the applicable requirements in IFRS 2 Share-based Payment, the entity receives a stock exchange listing service for which it has issued equity instruments as part of a share-based payment transaction.
▪ The entity measures that listing service as the difference between fair value of the instruments issued and the fair value of the identifiable net assets acquired.</td></tr>
<tr><th colspan="2">6. Which IFRS Accounting Standard applies to the instruments issued?</th></tr>
<tr><td colspan="2">The entity applies:
▪ IFRS 2 in accounting for the instruments issued to acquire the stock exchange listing service; and
▪ IAS 32 in accounting for the instruments issued to acquire cash and assume any liability related to the SPAC warrants.</td></tr>
</table>

6.1 Which instruments were issued for the SPAC's net assets and which were issued for the service?	
A. SPAC warrants are assumed	*B. SPAC warrants are not assumed*
Not Applicable.	The entity develops an accounting policy to determine which instruments it issued to acquire cash and which it issued to acquire the stock exchange listing service.

Table 1— summary of the tentative agenda decision

4. Based on its analysis, 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 discussed. Consequently, the Committee tentatively decided not to add a standard-setting project to the work plan.

5. The objective of this paper is to:

   (a) analyse comments on the tentative agenda decision (paragraphs 7–60); and

   (b) ask the Committee whether it agrees with our recommendation to finalise the agenda decision (paragraph 61).

6. Appendix A to this paper sets out the proposed wording of the agenda decision.

Comment letter summary

7. We received 10 comment letters by the comment letter deadline. All comment letters received are available on our website.[1] This agenda paper includes an analysis of comment letters received by the comment letter deadline, which are reproduced in Agenda Paper 3.

[1] At the date of posting this agenda paper, there was one late comment letter.

8. Many respondents generally agree (or do not disagree) with the Committee's analysis and conclusions. However, some of these respondents:

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

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

9. Some respondents disagree with the Committee's analysis and conclusions. They say the Committee's analysis is not the only way of applying IFRS Accounting Standards to the fact pattern discussed or does not seem intuitive.

10. Some respondents suggest that the Committee not finalise the agenda decision, but instead refer the matter to the International Accounting Standards Board (IASB) for it to assess whether standard-setting is needed.

11. Further details about the matters raised by respondents, together with our analysis, are presented below.

Staff analysis

12. We have separately analysed comments on the different sections of the tentative agenda decision, as follows:

   (a) the fact pattern considered by the Committee (see paragraphs 13–17);

   (b) whether the entity assumes the SPAC warrants as part of the acquisition (*question 3*, see paragraphs 18–28);

   (c) accounting for the replacement of SPAC warrants assumed (*question 4.1*, see paragraphs 29–33);

   (d) which IFRS Accounting Standard applies to the instruments issued (*question 6*, see paragraphs 34–59); and

   (e) other comments (see paragraph 60).

Fact pattern considered by the Committee

What does the tentative agenda decision say?

13. The tentative agenda decision discussed only the fact pattern described in paragraph 2 of this paper—a fact pattern in which the entity directly acquires the SPAC (the entity is both the accounting acquirer and the legal acquirer in the transaction).

14. Appendix D to Agenda Paper 6 for the Committee's March 2022 meeting (March 2022 agenda paper) included our analysis of an alternative fact pattern in which the SPAC acquisition is structured as a reverse acquisition (the entity is the accounting acquirer but the legal acquiree in the transaction). During its discussions in March 2022, the Committee decided not to comment on this alternative fact pattern in the tentative agenda decision.

Respondents' comments

15. Some respondents suggest that the Committee also comment on SPAC acquisitions structured as reverse acquisitions (referred to by some respondents as 'reverse takeover transactions'). In particular:

    (a) the Canadian Accounting Standards Board (AcSB) says it is unclear whether entities should apply the explanatory material in the tentative agenda decision by analogy to such transactions; and

    (b) Mazars says, based on its experience, SPAC acquisitions are more commonly structured as reverse acquisitions than direct acquisitions.

16. EY says it would be helpful to consider reverse acquisitions; it suggests that the Committee prepare a more fulsome analysis than in Appendix D to the March 2022 agenda paper. EY says that analysis failed to explain why, in such fact patterns, an entity would not consider the SPAC warrants assumed to be part of the deemed consideration transferred for the acquisition. Mazars is of the view that, because such fact patterns are economically similar to the discussed fact pattern, the entity would also be deemed to have issued warrants (not only ordinary shares) for the acquisition.[2]

[2] Mazars' view does not align with the staff view set out in the March 2022 agenda paper.

Staff analysis

17. At its March 2022 meeting, the Committee specifically discussed and decided not to comment on SPAC acquisitions structured as reverse acquisitions in the tentative agenda decision. Respondents provided no new information the Committee did not consider when it discussed the matter in March 2022. Therefore, we recommend not considering alternative fact patterns at this stage.

Whether the entity assumes the SPAC warrants as part of the acquisition

What does the tentative agenda decision say?

18. The tentative agenda decision states:

> 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 it issues in the transaction.
>
> 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 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.

Respondents' comments

Assessing whether an entity assumes the SPAC warrants

19. Some respondents say assessing whether an entity assumes the SPAC warrants as part of the acquisition can be judgemental and challenging. They suggest that the tentative agenda decision provide additional guidance on how an entity makes this assessment.

20. In addition, EY says:

    (a) the reference to 'legal structure' implies that the tentative agenda decision applies to fact patterns beyond the one it describes (such as reverse acquisitions), which may create confusion.

    (b) paragraph 48 of the March 2022 agenda paper provides examples of factors an entity considers in determining whether to account for the replacement of SPAC warrants separately from the acquisition, namely whether (i) the terms of the SPAC warrants and new warrants are the same; and (ii) there is a transfer of value in the replacement.[3] EY says it is unclear whether these factors could also indicate whether an entity assumes the SPAC warrants; it notes that the tentative agenda decision states the entity considers 'the terms and conditions of the SPAC warrants and the [new] warrants' in assessing whether the entity assumes the SPAC warrants.

The consequences of the assessment

21. Deloitte says an entity's assumption—or not—of the SPAC warrants would appear to play an important role in the conclusion that an entity allocates instruments between those issued to acquire the SPAC's net assets and those issued to acquire the stock exchange listing service. However, it is unclear—and the Committee should clarify—whether the assumption (or not) of the SPAC warrants affects (a) whether such an allocation of instruments is needed, and (b) the components to which instruments are allocated.

[3] Paragraphs 29–31 of this paper include further comments on the section of the tentative agenda decision titled 'How does the entity account for the replacement of the SPAC warrants?'.

Staff analysis

Assessing whether an entity assumes the SPAC warrants

22. Paragraph 8.4 of the IFRS Foundation's *Due Process Handbook* states:

> Agenda decisions (including any explanatory material contained within them) cannot add or change requirements in IFRS [Accounting] Standards. Instead, explanatory material explains how the applicable principles and requirements in IFRS [Accounting] Standards apply to the transaction or fact pattern described in the agenda decision.

23. The tentative agenda decision states that, in assessing whether the entity assumes the SPAC warrants, '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 it issues in the transaction'. The Committee is, in our view, unable to provide further guidance on how an entity would make this assessment without adding to the requirements in IFRS Accounting Standards.

24. Further:

    (a) for completeness, we view it as important to refer to the transaction's legal structure as a factor an entity considers in assessing whether it assumes the SPAC warrants if the Committee agrees that an entity's assessment includes consideration of all agreements associated with the acquisition. 'Legal structure' refers not only to whether the acquisition is a direct acquisition or a reverse acquisition; direct acquisitions could be structured in different ways, and how they are structured could affect whether the entity assumes the SPAC warrants.

    (b) the examples of factors an entity might consider in determining whether to account for the replacement of SPAC warrants separately from the acquisition—discussed in paragraph 48 of the March 2022 agenda paper—were not included in the tentative agenda decision. Therefore, it is unnecessary to clarify whether an entity would consider such factors in assessing whether it assumes the SPAC warrants as part of the acquisition.

The consequences of the assessment

25. In our view, the tentative agenda decision explains the outcomes that follow from the entity's assessment of whether it assumes—or does not assume—the SPAC warrants. The section 'Which instruments were issued for the SPAC's net assets and which were issued for the service?' (*question 6.1*) states that:

> *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 which instruments it issued to acquire the cash and which it issued to acquire the stock exchange listing service. [emphasis added]

26. This section of the agenda decision explains that an entity would have to determine which types of instruments it issued for the SPAC's net assets and which it issued for the service only if the entity does *not* assume the SPAC warrants. If the entity concludes that it assumes the SPAC warrants, then a single type of instrument (ordinary shares) is issued and thus no allocation of different types of instrument is required.[4] However, we recommend clarifying this consequence by referring to 'types of instrument' instead of 'instruments' in the agenda decision.

27. Having considered respondents' drafting suggestions, we also recommend adding in separate boxes (described as 'additional considerations') the parts of the analysis in the agenda decision that are applicable only if the entity assumes—or does not assume—the SPAC warrants. In our view, this would add clarity to the consequences of the assessment.

28. Appendix A to this paper sets out our recommended changes to the tentative agenda decision.

[4] In this case, the entity would nonetheless have to consider which IFRS Accounting Standard applies in accounting for the ordinary shares—that is, the transaction would not be entirely in the scope of IFRS 2. However, in the fact pattern discussed this would not change the accounting because ordinary shares are classified as equity in both IAS 32 and IFRS 2.

Accounting for the replacement of SPAC warrants assumed

What does the tentative agenda decision say?

29. The tentative agenda decision states:

> In the fact pattern discussed, the entity negotiated the replacement of the SPAC warrants as part of the SPAC acquisition. Therefore, the entity considers the extent to which it accounts for the replacement of the SPAC warrants as part of that acquisition.
>
> No IFRS Accounting Standard specifically applies to this consideration. In applying paragraphs 10–11 of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* to develop an accounting policy, the entity refers to, and considers the applicability of, the requirements in paragraph B50 of IFRS 3. If an entity concludes that it accounts for the replacement transaction separately from the SPAC acquisition, the entity does so applying the applicable requirements in IAS 32 and IFRS 9 *Financial Instruments*.

Respondents' comments

30. EY says, because an entity can account for the replacement of the SPAC warrants as part of the acquisition, classification questions arise for the new warrants issued. For example, if the entity transfers incremental value through the replacement (in a situation in which the fair value of the new warrants is more than that of the SPAC warrants), EY questions whether:

    (a) only the incremental value would be additional consideration for the acquisition—if so, how would this affect the classification of new warrants issued? or

    (b) all the new warrants are consideration for the acquisition—if so, is the replacement of the SPAC warrants and the SPAC acquisition considered a single transaction or two separate transactions?

Staff analysis

31. Paragraph 48 of the March 2022 agenda paper includes our analysis of how entities would develop an accounting policy for the replacement of the SPAC warrants. We explained that, applying paragraph 11(a) of IAS 8, in our view the entity would refer to, and consider the applicability of, the requirements in paragraph B50 of IFRS 3. For example:

    (a) if the terms of the new warrants differ from those of the SPAC warrants and there is a transfer of value in the replacement (the fair value of the SPAC warrants and that of the new warrants are not the same), those terms would indicate that at least part of the replacement relates to the SPAC acquisition and would be accounted for as part of that transaction; alternatively,

    (b) if the terms of the new warrants are the same as the old warrants and there is no transfer of value in the replacement, those terms might indicate that the entity agreed to assume the SPAC warrants as part of the acquisition and replaces them only because the entity replaces the SPAC as the listed entity on the stock exchange. In that case, the entity would account for the replacement of the warrants separately from the acquisition.

32. The tentative agenda decision does not include the examples above but states that an entity considers '*the extent* to which it accounts for the replacement of the SPAC warrants as part of that acquisition' (emphasis added). That means an entity may conclude that at least part of the new warrants issued are additional consideration for the acquisition of the SPAC and, thus, are part of the acquisition (for example, because the entity transfers incremental value in replacing the SPAC warrants).

33. We recommend changes to the wording of the tentative agenda decision to improve its clarity in this respect, which are set out in Appendix A to this paper. We recommend adding no further explanation in the agenda decision with respect to this matter to avoid (a) adding further complexity to it, and (b) including material that goes beyond the requirements in IFRS Accounting Standards.

Which IFRS Accounting Standard applies to the instruments issued?

What does the tentative agenda decision say?

34. The tentative agenda decision states:

> 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 liabilities related to the SPAC warrants. The Committee observed that:
>
> a. IAS 32 applies to all financial instruments, with some exceptions. Those 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 liabilities related to the SPAC warrants—these instruments were not issued to acquire goods or services and are not in the scope of IFRS 2.

35. The tentative agenda decision goes on to state the following about how an entity determines which instruments 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 which instruments it issued to acquire the cash and which it issued to acquire 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. The Committee noted that:

a. an entity's accounting policy must result in information that is relevant and reliable (as described in paragraph 10 of IAS 8). An accounting policy that results in 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 this requirement.

b. 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.

c. other allocation methods could be acceptable if they meet the requirements in paragraphs 10–11 of IAS 8.

Respondents' comments

Allocation of instruments to individual assets and liabilities acquired

36. EY says it is unclear whether IFRS 2 requires an entity to split a transaction that involves the acquisition of both goods and services and financial assets into a portion within the scope of IFRS 2 and another portion within the scope of IAS 32. The Accounting Standards Committee of Germany (ASCG) says the idea of splitting an acquisition—and allocating the shares and new warrants to individual assets and liabilities—is not evident.

37. PwC says no IFRS Accounting Standard specifically requires an allocation between IFRS 2 and IAS 32. Instead, in their view an entity develops an accounting policy applying IAS 8 to account for the instruments issued to acquire the SPAC:

> Although we could support the allocation as one alternative an entity may consider in developing its policy, we do not think the standards are specific enough for an allocation to be mandated. If the Committee would like to conclude that an allocation must be made in this situation, we think this will change / add to existing guidance in IFRS and should be issued as an amendment to a standard or a formal interpretation.

38. PwC also says:

(a) considering the requirements in paragraph 3A of IFRS 2, IFRS 2 applies to any transaction in which an entity receives goods or services in a share-based payment arrangement;[5]

(b) although the term ‘transaction’ is not defined, the scope of IFRS 2 does not contemplate applying the Standard to only a part of a transaction; and

(c) in developing an accounting policy, an entity can apply IFRS 2 in accounting for a transaction that meets the definition of a share-based payment arrangement in its entirety.

Unintended consequences

39. Some respondents say the tentative agenda decision has applicability beyond the specific fact pattern the Committee considered and could have unintended consequences on other transactions and arrangements. Respondents describe different arrangements for which the tentative agenda decision could be applicable, including:

(a) the acquisition of a group of assets through the issuance of equity instruments, including warrants. For example:

[5] Paragraph 3A of IFRS 2 refers to a share-based transaction settled by another group entity (or shareholder of any group entity) on behalf of the entity receiving or acquiring the goods or services.

(i) the AcSB says:

> Asset acquisitions across a broad spectrum of industries are often completed through the issuance of equity instruments, including warrants. It is also common for there to be a mix of assets acquired, some of which may be cash and other financial assets or financial liabilities (i.e., receivables, payables, etc.). For example, in the life sciences industry, we understand that it is common for an entity to acquire a group of assets that does not meet the definition of a business, such as intangible assets consisting of patents and intellectual property, as well as some miscellaneous receivables and payables, and a cash balance. Often, these entities have applied judgment and accounted for the consideration transferred in accordance with IFRS 2 … rather than splitting it between non-business portions that reside in IFRS 2 and other portions that reside in IAS 32…

(ii) Deloitte says:

> Whilst it may be reasonable to conclude that the acquisition of a group of assets consisting solely of cash (and other financial assets) would not be subject to the requirements of IFRS 2, we are concerned that analogies may be drawn to the agenda decision to conclude that whenever shares (or share-based awards) are issued to acquire a group of assets which includes financial assets but does not constitute a business it is necessary to distinguish two components to the transaction: the acquisition of the non-financial assets (subject to IFRS 2) and the acquisition of financial assets (subject to IAS 32).

(b) share-based payment awards given to employees. For example:

(i) EY and the AcSB mention warrants that give the holder the right to a variable number of shares issued for cash consideration close to their fair value but subject to service conditions. They say such awards are common in the private equity industry as part of the compensation package for key management personnel.

(ii) PwC mentions share options granted to employees for both services and cash (in the form of a strike price), arrangements in which an employee pays an upfront deposit and particular arrangements with foreign currency features.[6]

(c) situations in which an entity issues a single instrument in exchange for cash and services.

40. Respondents say entities typically apply IFRS 2 in accounting for such transactions in their entirety. PwC says it is unclear whether the agenda decision, if finalised, would apply to these other arrangements. The AcSB and EY suggest that the Committee not finalise the agenda decision and instead refer the matter to the IASB to assess whether standard-setting is needed.

Practical challenges

41. EY says the accounting in the tentative agenda decision would result in practical difficulties related to the subsequent accounting of the new warrants issued. Because the terms of exercised and non-exercised warrants are the same, it would be difficult for the entity to reliably determine whether new warrants exercised in a period had been allocated to:

(a) the acquisition of cash, and thus accounted for applying IAS 32; or

(b) the acquisition of the stock exchange listing service, and thus accounted for applying IFRS 2.

42. EY questions whether other accounting policies would be acceptable, such as accounting for a transaction applying either IFRS 2 or IAS 32 based on the transaction's predominant component. In the fact pattern discussed, they say such an accounting policy could reduce the practical challenges of allocating instruments between those issued to acquire cash and those issued to acquire the listing service.

Inconsistency with the March 2013 agenda decision

43. PwC and Deloitte say the Committee's conclusions in the tentative agenda decision are—or appear to be—inconsistent with the conclusion reached by the Committee in the Agenda Decision *Accounting for reverse acquisitions that do not constitute a business* (March 2013). They say the March 2013 agenda decision implies that an

[6] PwC acknowledges that the examples provided are not pervasive.

entity applies IFRS 2 in accounting for the transaction described in that agenda decision in its entirety. For example, the March 2013 agenda decision state that ‘because the analysed transaction is not within the scope of IFRS 3, the Interpretations Committee noted that it is therefore a share-based payment transaction which should be accounted for in accordance with IFRS 2’.

44. Further, PwC also says:

(a) the March 2013 agenda decision sets out the following principle:

> regardless of the level of monetary or non-monetary assets owned by the non-listed operating entity, the entire difference should be considered to be a payment for service of a stock exchange listing and that *no amount should be considered a cost of raising capital* [emphasis added by PwC]

(b) the tentative agenda decision contradicts that principle because the entity issued instruments to acquire cash at a discount, and that discount is a cost of raising capital.

Staff analysis

Allocation of instruments to individual assets and liabilities acquired

45. In reaching its conclusion, the Committee considered the following paragraphs of IAS 32 and IFRS 2, which establish the scope of each Standard:

(a) paragraph 4 of IAS 32 states that an entity shall apply IAS 32 to all types of financial instruments, with some exceptions. Among the exceptions are ‘financial instruments, contracts and obligations under share-based payment transactions to which IFRS 2 *Share-based Payment* applies…’.

(b) paragraph 2 of IFRS 2 states that an entity shall apply IFRS 2 ‘in accounting for all share-based payment transactions’. Appendix A to IFRS 2 defines a share-based payment transaction as a transaction in which the entity ‘receives *goods or services* … in a share-based payment arrangement…’ (emphasis added).

(c) paragraph 5 of IFRS 2 states that 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*… (emphasis added)

46. In our view, these requirements prohibit the application of (a) IFRS 2 in accounting for financial instruments issued to acquire cash, and (b) IAS 32 in accounting for financial instruments issued to acquire goods or services. This is because both IFRS 2 and IAS 32 include requirements that specifically apply to the transactions and instruments within their scope. For example, IAS 32 does not include requirements on how an entity accounts for goods and services acquired in exchange for issuing a financial instrument. Therefore, an entity must apply IFRS 2 to share-based payment transactions in which it acquires good and services because IFRS 2 includes the specific requirements that apply to such a transaction.[7] Similarly, IFRS 2 includes no requirements on the acquisition of cash (or another financial asset) in exchange for issuing a financial instrument. Therefore, an entity must apply IAS 32 and IFRS 9 to transactions in which it acquires cash or another financial asset in exchange for issuing a financial instrument.[8]

47. In our view, the question in the submission arises not because the requirements in the scope paragraphs of IFRS 2 and IAS 32 lack clarity, but rather because the Standards include different classification requirements for the instruments within their scope. In other words, IFRS Accounting Standards require entities to classify particular instruments with the same terms differently depending on whether those instruments are issued to acquire goods or services or to obtain cash. The Committee's conclusion in the agenda decision cannot change those requirements and, thus, cannot avoid different classification outcomes for particular instruments.

48. We continue to see no basis in IFRS Accounting Standards to account for the SPAC acquisition in its entirety as a share-based payment transaction in the scope of IFRS 2.

[7] Except as specified in paragraph 4(f) of IAS 32 and paragraph 6 of IFRS 2.

[8] Except as specified in paragraph 4 of IAS 32 and paragraph 2.1 of IFRS 9.

Accordingly, we continue to agree with the Committee's technical analysis and conclusions.

Unintended consequences

49. In our view, an entity would apply the scope paragraphs referred to in paragraph 45 of this paper in determining the required accounting for any transaction involving the issue of financial instruments to acquire financial assets and goods or services. For example, paragraphs BC8–BC18 of the Basis for Conclusions on IFRS 2 set out the IASB's considerations regarding employee share purchase plans that provide employees with the opportunity to buy a specific number of shares at a discounted price (at an amount that is less than the fair value of the shares). These paragraphs explain the IASB's conclusion that such plans should *not* be excluded from the scope of IFRS 2 and that the IASB envisaged that, under such plans, an entity would account for the *remuneration* (ie the benefit of purchasing shares at a discount) provided to employees in return for services as shared-based payment transactions (even in instances in which the discount—and thus the benefit—is small).

50. In our view, the requirements in IFRS 2 and IAS 32 apply as discussed above even if an entity issues a single instrument. In other words, IFRS 2 applies to a *share-based payment transaction* (ie a transaction in which the entity receives goods or services), even if the entity issues a single instrument also in exchange for cash (as in the case of the employee share purchase plan discussed in paragraph BC8–BC18 of IFRS 2). To clarify this, we propose some changes to the wording of the agenda decision, which are set out in Appendix A to this paper.

51. We note however that, in many cases, no allocation of instruments between those accounted for applying IAS 32 and those accounted for applying IFRS 2 is needed because, for many instruments, there would be no difference in the accounting that results from applying each Standard.

52. Finally, PwC mentions share options granted to employees for both services and cash (in the form of a strike price). We view the exercise of a share option as a different transaction from the issuance of that share option. For example:

    (a) the entity grants a share option to an employee in exchange for receiving services—an entity accounts for this transaction as a share-based payment transaction in the scope of IFRS 2; and

    (b) when the employee exercises the share option, the entity issues an ordinary share to the employee in exchange for cash (in the form of a strike price) and for settling its obligation under the share option—an entity accounts for this transaction applying IFRS 9 and IAS 32.

Practical challenges

53. In our view, is it possible for entities to develop a reasonable way of accounting for the exercise of the new warrants after acquiring a SPAC. For example, in our view it would be reasonable to assume the warrants are exercised in each period in the same proportion as the entity's allocation when accounting for the SPAC acquisition.

54. We view the practical application of IFRS Accounting Standards to the fact pattern discussed as no more complicated than the application of the Standards to many other transactions. In the case of the fact pattern submitted, at least part of any complication arises from how the transaction has been structured (for example, by issuing two different types of instruments, rather than one, and by acquiring the SPAC's listing) and not from the requirements themselves.

55. Further, in our view:

    (a) there is no basis in the requirements in IFRS 2 and IAS 32 to account for a transaction such as the one described in the submission based on the transaction's predominant component (see discussion in paragraphs 45–48 of this paper); and

    (b) it would be impossible to account for a service and the respective component of instruments issued other than by applying the requirements in IFRS 2, even if the transaction's predominant component is the acquisition of cash. This is because the accounting for the service acquired is linked to that of the respective component of the instruments issued.[9]

Inconsistency with the March 2013 agenda decision

56. We acknowledge that wording used in the March 2013 agenda decision could be read to imply that an entity accounts for the transaction described in that agenda decision entirely in the scope of IFRS 2. As explained in paragraphs 56–58 of the March 2022 agenda paper, in our view this is because the March 2013 agenda decision responds to questions about identifying the acquirer and the stock exchange listing service in a SPAC reverse acquisition transaction; that agenda decision does not consider the classification of the instruments issued as part of the acquisition. In the March 2013 fact pattern, the instruments were shares deemed to have been issued by the entity. Unlike the fact pattern discussed in this paper, the March 2013 fact pattern did not involve the issue of different types of instruments as part of the acquisition. The submission discussed in this paper asked specifically about the classification of the instruments issued to acquire the SPAC and, therefore, requires analysis of how IAS 32 and IFRS 2 apply in classifying these instruments.

57. Because of the differences in the respective fact patterns, the agenda decision discussed in this paper responds to questions that did not arise and thus were not contemplated as part of the March 2013 agenda decision. The agenda decision discussed in this paper—if finalised—would set out the more directly applicable explanatory material than the March 2013 agenda decision for entities with fact patterns such as the one described in the submission (in which warrants are issued in acquiring a SPAC).

58. If the Committee decides to finalise the agenda decision and if considered helpful, it would be possible to include a reference in the March 2013 agenda decision to the fact that the 2022 agenda decision discusses the classification of instruments issued in a related fact pattern.

[9] For example, the measurement of the service depends on the accounting for the instrument—whether the transaction is considered an equity-settled or cash-settled share-based payment transaction.

Staff's conclusion

59. In summary, we conclude that:

(a) the scope paragraphs in IFRS 2 and IAS 32 clearly identify the instruments and transactions within their scope. The applicable requirements in IFRS 2, IAS 32 and IFRS 9 specifically apply to the transactions and instruments within their scope.

(b) differences in the classification of instruments with the same terms result from the different classification requirements in IFRS 2 and IAS 32.

(c) discussion in the basis for conclusion on IFRS 2 explains that the IASB intended IFRS 2 to capture the remuneration for services when a single instrument is issued predominantly for cash but also provides remuneration to employees for services (as is the case with employee share purchase plans under which shares are offered for a small discount).

(d) we continue to see no basis in IFRS Accounting Standards to account for the SPAC acquisition in its entirety in the scope of either IFRS 2 or IAS 32 because the entity acquires both cash and a stock exchange listing service. Accordingly, we continue to agree with the Committee's technical analysis and conclusions.

Other comments

60. The following table summarises respondents' comments on other matters related to the Committee's technical analysis and conclusions, together with our analysis of these comments:

Respondents' comments	**Staff analysis and conclusions**
1. Accounting for new warrants issued to acquire the SPAC The AcSB says the tentative agenda decision does not address the accounting for new warrants considered part of the consideration for the SPAC acquisition. They say the initial and subsequent measurement of these instruments depends on whether they are in the scope of IFRS 2 or other Standards and suggest the Committee address the matter.	*We recommend no further action.* The agenda decision: a. addresses the accounting for new warrants issued when an entity concludes that it does not assume the SPAC warrants as part of the acquisition—the agenda decision explains that, in such circumstances, the entity issues both ordinary shares and new warrants to acquire the SPAC. b. explains the accounting for the new warrants issued to acquire the SPAC in the section 'Which IFRS Accounting Standard applies to the instruments issued'.
2. Accounting for warrants after vesting PwC says, after accounting for warrants applying IFRS 2 on initial recognition, an entity then needs to consider whether to subsequently account for them applying IFRS 2 or IAS 32 as envisaged in question 2 of the submission. PwC says the Committee has not adequately	*We recommend no further action.* Question 2 in the submission was based on the assumption that all instruments issued to acquire the SPAC would be in the scope of IFRS 2. Therefore, the submission asked whether the warrants initially accounted for applying IFRS 2 would remain in the scope of IFRS 2 after vesting.

Respondents’ comments	Staff analysis and conclusions
considered this second question and suggests the Committee specifically address it in the agenda decision.	The Committee refuted that assumption and concluded that an entity applies IFRS 2 only to the instruments issued to acquire the stock exchange listing service. Therefore, the Committee did not specifically consider question 2 in the submission. In our view, the Committee should not consider this question because the question: a. is too broad for the Committee to address only in the context of the fact pattern discussed—it would affect all share-based payment transactions within the scope of IFRS 2; b. does not arise when the entity concludes it assumes the SPAC warrants as part of the acquisition; and c. applies only to a portion (expected to be the smaller portion) of the instruments issued in a SPAC acquisition.
3. Different definitions of fair value The AcSB says IFRS 2 and IAS 32 contain different definitions of fair value (the definition in IAS 32 is the same as that in IFRS 13 *Fair Value Measurement*). Therefore, the relative fair value approach suggested in the agenda decision for allocating shares and new warrants to the acquisition of cash and the stock exchange listing service could result in different outcomes depending on which definition of fair value an entity	*We recommend no further action.* The Committee described in the tentative agenda decision a possible accounting policy an entity may develop in determining which types of instruments it issued to acquire the cash and which it issued to acquire the stock exchange listing service. In our view, it is unnecessary for the Committee to include further discussion on the specific requirements an entity would apply in determining the fair value of the instruments for this purpose.

Respondents' comments	Staff analysis and conclusions
uses. They suggest that the agenda decision could require the use of one of those definitions.	
4. Usefulness of information Mazars says the accounting outcome of allocating instruments between those issued to acquire cash and those issued to acquire the stock exchange listing service would not provide useful information. They say each financial instrument should be a single unit of account, instead of splitting the same instruments into IAS 32 and IFRS 2 components. The entity should then apply the Standard applicable to the predominant component. Mazars says, if the Committee were to agree with this, it should consider whether this treatment be explained in the agenda decision or required through a standard-setting project.	*We recommend no further action.* We disagree with the treatment suggested by Mazars for the reasons explained in paragraphs 45–48 of this paper. In our view, there is no basis in the requirements of IFRS 2 and IAS 32 to account for a transaction such as the one described in the submission based on the transaction's predominant component. We also recommend not adding a standard-setting project to the work plan—as discussed in paragraph 47, in our view the matter in the submission arises because IFRS 2 and IAS 32 include different classification requirements for instruments within their scope. Any standard-setting in this respect would go well beyond a narrow-scope project. Further, we note that a potential project to review IFRS 2 was suggested by a few respondents to the IASB's *Third Agenda Consultation*. Having considered respondents' feedback and other evidence, the IASB concluded that this potential project did not meet the prioritisation criteria to the same extent as the projects added to its research pipeline.
5. Organisation of the steps in the agenda decision Mazars says, while it agrees with aspects of the Committee's analysis, it has reservations about how the agenda decision is drafted and comments	*We recommend no further action.* We continue to agree with the Committee's analysis in the tentative agenda decision:

Respondents' comments	Staff analysis and conclusions
on different sections of the agenda decision. Points of disagreements are summarised below: a. an entity should refer to paragraph B50 of IFRS 3 in determining whether it assumes the SPAC warrants as part of the acquisition. The section 'How does the entity account for the replacement of the SPAC warrants?' should be deleted. b. an entity should allocate the instruments issued between the net assets of the SPAC, the replacement of the SPAC warrants and the acquisition of the stock exchange listing service. This allocation depends on whether the SPAC warrants are equity instruments or liabilities of the SPAC. If the warrants are equity instruments of the SPAC, the allocation of instruments between those issued to acquire the net assets and those issued to acquire the stock exchange listing service is done on a relative basis (such as based on the relative fair values of the instruments issued). If the warrants are liabilities of the SPAC, the entity would consider whether the terms and fair value of the SPAC warrants are similar: i. if they are similar, the entity fully allocates the new warrants to replace the SPAC warrants; and ii. if there are not similar, the entity allocates (a) the new warrants primarily to the replacement of the SPAC warrants,	a. paragraph B50 of IFRS 3 provides factors an entity considers in determining whether a transaction is part of the exchange for an acquiree or is separate from a business combination. Therefore, in our view, the entity refers to paragraph B50 of IFRS 3 in determining whether to account for the replacement of SPAC warrants assumed as part of the acquisition of the SPAC, rather than in determining whether it assumes the SPAC warrants. b. Mazars articulates the steps an entity goes through in accounting for the acquisition differently from the agenda decision, but seems to arrive at a similar outcome. In our view, the Committee's analysis in the tentative agenda decision describes how an entity would apply the requirements in IFRS Accounting Standards in accounting for the transaction.

Respondents' comments	Staff analysis and conclusions
and (b) any excess fair value to the acquisition of the SPAC's net assets and the stock exchange listing service.	
6. Drafting suggestions Respondents raised drafting suggestions on the tentative agenda decision. PwC says the agenda decision is complex, long and difficult to read and suggests making the following changes (should the Committee decide to finalise the agenda decision): a. amend the agenda decision so that it includes two sections that consider separately the accounting when the entity (i) assumes the SPAC warrants, and (ii) when it does not. b. remove topics that the Committee has previously considered, namely the sections 'Who is the acquirer?' and 'Does the entity also acquire a stock exchange listing service?'. c. add a decision tree similar to the one included in Appendix E to the March 2022 agenda paper. d. identify the warrants as either 'SPAC warrants' or 'NewCo warrants' throughout the agenda decision. Deloitte makes the following suggestions:	*We recommend changes to the agenda decision.* We have considered the drafting suggestions as follows: a. in our view, including two separate sections describing the accounting when an entity assumes (and does not assume) the SPAC warrants would create too much repetition because many parts of the analysis are common to both scenarios. However, we recommend adding the parts of the analysis applicable to only one of the scenarios in separate boxes (described as 'additional considerations') within the agenda decision. In our view, this will help stakeholders identify the parts of the analysis that apply only to particular fact patterns. b. we recommend removing the section 'who is the acquirer' from the agenda decision because the fact pattern already establishes the acquirer. However, in our view the section 'Does the entity also acquire a stock exchange listing service?' should be retained because it is an essential part of responding to the question in the submission. c. in our view, it is unnecessary to add a decision tree like the one in Appendix E to the March 2022 agenda paper—such an addition might add complexity to the agenda decision.

Respondents' comments	Staff analysis and conclusions
e. simplify the agenda decision by removing the analysis of matters predetermined in the fact pattern, namely the sections 'who is the acquirer?' and 'which IFRS Accounting Standard applies to the SPAC acquisition'. They say the latter section does not provide any insights on determining which IFRS Accounting Standard applies. f. the Committee states that 'an accounting policy that results in 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 [the requirement in paragraph 10 of IAS 8]'. They say this statement (a) does not highlight a principle in IFRS Accounting Standards, but rather aims to address the application of potentially abusive accounting policies, and (b) is neither necessary nor appropriate—the requirement in IAS 8 that the entity's accounting policy must result in relevant and reliable information is sufficiently clear to address the situation. Mazars suggests: g. explaining that the question in the submission stems from the fact that IFRS 2 and IAS 32 include different requirements for classifying instruments as equity instruments or financial liabilities.	d. we recommend changes to the agenda decision to identify whether the analysis is referring to the 'SPAC warrants' or the 'new warrants' the entity issued when acquiring the SPAC. e. in our view, the section 'which IFRS Accounting Standard applies to the SPAC acquisition' should be retained because it explains that an entity accounts for the acquisition by applying the requirements in paragraph 2(b) of IFRS 3. f. we suggest keeping the Committee's statement. In our view, removing this statement might raise questions about whether an entity could apply such an accounting policy. g. in our view, it is unnecessary to state that IFRS 2 and IAS 32 include different classification requirements in the agenda decision.

Respondents' comments	Staff analysis and conclusions
Therefore, an entity would classify warrants differently depending on which Standard applies.	
7. Other comments The Chartered Accountants Academy comments on whether a SPAC meets the definition of a business, and therefore whether an entity applies IFRS 3 in accounting for the acquisition.	*We recommend no further action.* The fact that the SPAC does not meet the definition of a business in IFRS 3 is established as part of the fact pattern. Therefore, further analysis is unnecessary.

Staff recommendation

61. Based on our analysis in paragraphs 12–60, we recommend finalising the agenda decision with the changes suggested in Appendix A to this paper. If the Committee agrees with our recommendation, we will ask the IASB whether it objects to the agenda decision at the first IASB meeting at which it is practicable to present the agenda decision.

Questions 1–2 for the Committee
1. Does the Committee agree with our recommendation set out in paragraph 61 of this paper? 2. Do Committee members have any comments on the wording of the agenda decision in Appendix A?

Appendix A—proposed wording of the agenda decision

A1. We propose the following wording for the final agenda decision (new text is underlined and deleted text is struck through).

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 entity is the acquirer, as defined in IFRS 3 *Business Combinations*. 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). The purpose of the acquisition is for the entity to obtain the cash and the SPAC's listing on ~~in~~ 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 provided by the founders. The founders provide no services to the entity after the acquisition.

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

c. The entity issues ~~acquires the SPAC by issuing~~ 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's warrants. ~~The entity's owners control the group after the transaction.~~ The SPAC becomes a wholly-owned subsidiary of the entity and the entity replaces the SPAC as the entity listed on ~~in~~ the stock exchange.

d. the fair value of the instruments the entity issues to acquire the SPAC exceeds the fair value of the identifiable net assets of the SPAC.

~~**Who is the acquirer?**~~

~~In determining the accounting for a SPAC acquisition, an entity first identifies which party is the acquirer in the transaction—that is, which party obtains control of the other. Identifying the acquirer is necessary to determine which party accounts for the acquisition and whether the acquisition meets the definition of a business combination in the scope of IFRS 3. Paragraphs B13–B18 of IFRS 3 specify how to identify the acquirer in a business combination.~~

~~In the fact pattern discussed, the entity is the acquirer. Consequently, the acquisition does not meet the definition of a business combination in IFRS 3 because the acquiree (the SPAC) is not a business.~~

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 ~~any liability related to~~ the SPAC warrants as part of the acquisition and, consequently, whether it assumes any liability related to those warrants.

~~*Does the entity assume the SPAC warrants as part of the acquisition?*~~

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 it issues ~~in the transaction~~.

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 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, ~~if the facts and circumstances are such that the entity assumes the SPAC warrants as part of the acquisition,~~ 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?

In the fact pattern discussed, the entity negotiated the replacement of the SPAC warrants as part of the SPAC acquisition. Therefore, the entity determines ~~considers~~ the extent to which it accounts for the replacement of the SPAC warrants as part of that acquisition.

No IFRS Accounting Standard specifically applies in making this determination ~~to this consideration~~. In applying paragraphs 10–11 of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* to develop and apply an accounting policy, the entity refers to, and considers the applicability of, the requirements in paragraph B50 of IFRS 3. To the extent ~~If~~ an entity concludes that it accounts for the replacement

~~transaction~~ separately from the SPAC acquisition, the entity applies ~~does so applying~~ the applicable requirements in IAS 32 and IFRS 9 *Financial Instruments* to do so.

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, it 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, 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 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~~ies~~ related to the SPAC warrants. The Committee observed that:

a. IAS 32 applies to all financial instruments, with some exceptions. Those 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~~ies~~ 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~~s~~ 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~~ which~~ to what extent it issued each type of instrument~~s it issued~~ to acquire (i) the cash, and ~~which it issued to acquire~~ (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. The Committee noted that:

a. an entity's accounting policy must result in information that is relevant and reliable (as described in paragraph 10 of IAS 8). An accounting policy that results in 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 this requirement.

b. 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.

c. other allocation methods could be acceptable if they meet the requirements in paragraphs 10–11 of IAS 8.

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.