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STAFF PAPER

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IFRS® Interpretations Committee meeting

Project	**Special Purpose Acquisition Companies (SPAC): Accounting for Warrants at Acquisition**		
Paper topic	Initial Consideration		
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Introduction

1. The IFRS Interpretations Committee (Committee) received a submission about how an entity accounts for warrants on acquiring a special purpose acquisition company (SPAC).

2. The objective of this paper is to:

   (a) provide the Committee with a summary of the matter;

   (b) present our research and analysis; and

   (c) ask the Committee whether it agrees with our recommendation not to add a standard-setting project to the work plan.

Structure of the paper

3. This paper includes the following:

   (a) background information (paragraphs 5–14);

   (b) outreach (paragraphs 15–17);

   (c) analysis of the questions asked in the submission (paragraphs 18–59);

   (d) analysis of whether to add a standard-setting project to the work plan (paragraphs 60–61); and

   (e) staff recommendation (paragraphs 62–63).

4. There are six appendices to this paper:

   (a) Appendix A—proposed wording of the tentative agenda decision;

   (b) Appendix B—submission;

   (c) Appendix C—March 2013 agenda decision;

   (d) Appendix D—SPAC acquisitions structured as a reverse acquisition;

   (e) Appendix E—decision tree; and

   (f) Appendix F—paragraph 5 of IFRS 2.

Background information

The fact pattern

5. The submission describes a fact pattern in which a private operating entity (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 cash and the SPAC's listing in a stock exchange.

6. Before the acquisition, the ordinary shares of the SPAC are owned by its founder shareholders and public investors. The ordinary shares of the SPAC are equity instruments as defined in IAS 32 *Financial Instruments: Presentation*. In addition to the ordinary shares, the SPAC also issued warrants to both its founder shareholders and public investors, as follows:

   (a) *founder warrants* were issued at the SPAC's formation as consideration for services provided by the founders. The SPAC—in applying IFRS 2 *Share-based Payment*—classified and accounted for these warrants as part of an equity-settled share-based payment transaction.

   (b) *public warrants* were issued to public investors together with ordinary shares at the time of the SPAC's IPO. The SPAC—in applying IAS 32—classified these warrants as financial liabilities and accounted for them as such.

7. 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.

8. To carry out the acquisition, the entity sets up a new parent company (NewCo) that:

   (a) issues new ordinary shares and warrants to the SPAC's public investors and founder shareholders in exchange for the SPAC's ordinary shares and the cancellation of the SPAC's warrants. The entity's owners retain control of the entity after the transaction.[1] Both the ordinary shares and the warrants in the SPAC are considered in determining the exchange ratio of equity between the entity's shareholders and those of the SPAC.

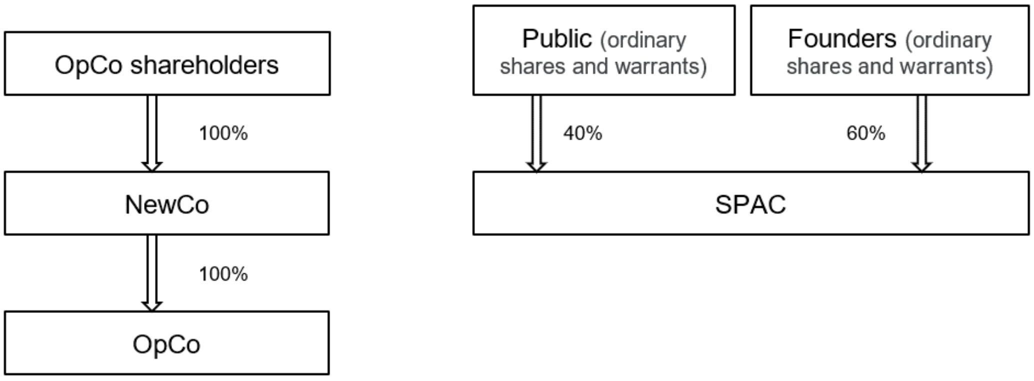
   (b) replaces SPAC as the entity listed in the stock exchange. The SPAC becomes a wholly-owned subsidiary of NewCo.

9. The warrants NewCo issues contain no vesting conditions and have the same terms and conditions as the warrants they replace (except they give the holders the right to obtain ordinary shares of NewCo, instead of SPAC). The new public warrants are listed and freely tradable; the new founder warrants are not listed and contain specific terms that affect their fair value.

10. The fair value of the new shares and warrants issued by NewCo exceeds that of the cash held by the SPAC.

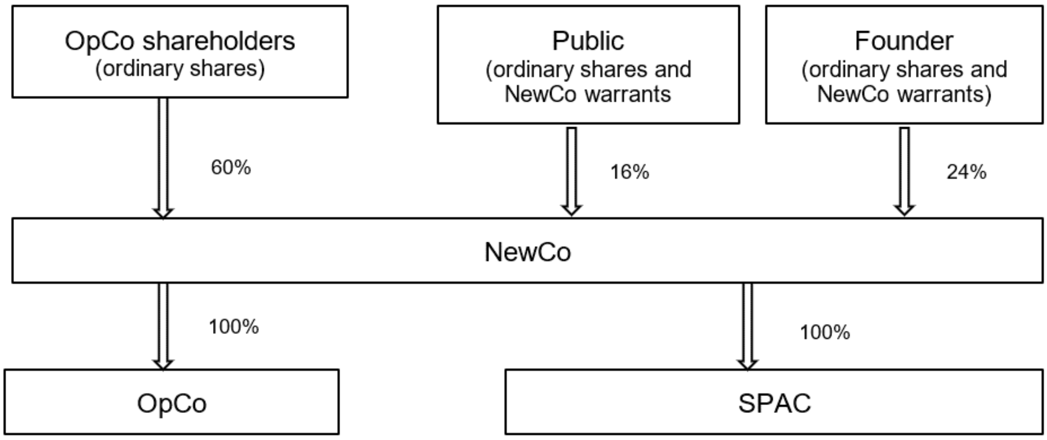
11. The following diagrams illustrate an example of the ownership structure before and after the acquisition:

Before the acquisition


OpCo shareholders
100%
NewCo
100%
OpCo
Public (ordinary shares and warrants)
Founders (ordinary shares and warrants)
40%
60%
SPAC

[1] In this paper, references to 'the entity' relates to the group comprising the operating entity and NewCo.

After the acquisition


OpCo shareholders
(ordinary shares)
Public
(ordinary shares and
NewCo warrants
Founder
(ordinary shares and
NewCo warrants)
60%
16%
24%
NewCo
100%
100%
OpCo
SPAC

The questions in the submission

12. The submitter asks whether, in the fact pattern described in the submission, the warrants NewCo issues to SPAC shareholders:

    (a) are in the scope of IFRS 2 or represent a liability assumed by the entity as part of the acquisition; and

    (b) if the warrants are in the scope of IFRS 2, whether they remain so after the acquisition date.

13. The submitter asks these questions because the warrants include features that—applying IAS 32—would result in their classification as a financial liability, whereas—applying IFRS 2—they would be accounted for as an equity-settled share-based payment transaction.[2]

14. Appendix B to this paper reproduces the submission, which provides further details about the alternative views identified by the submitter for each of the questions above.

[2] IFRS 2 and IAS 32 include different classification requirements for financial instruments within their scope. For example, a financial instrument that fails to meet the 'fixed for fixed' criterion for classification as an equity instrument in paragraph 22 of IAS 32 is not precluded by IFRS 2 from being accounted for as an equity instrument.

Outreach

15. The purpose of any outreach we perform is to understand whether the matter raised has widespread effect and has, or is expected to have, a material effect on those affected.

16. We decided not to perform outreach on this submission because we obtained information about the widespread and material effect of the matter raised from other sources:

    (a) we are aware that a considerable number of SPACs have completed IPOs in recent years, and that many have either recently completed or are currently seeking to acquire a target private operating company; and

    (b) through discussion with stakeholders, we understand that SPAC acquisition transactions similar to the one described in the submission are widespread in the US and that there are differing views about aspects of the accounting.

17. We also understand from discussions with stakeholders that SPAC acquisition transactions can be structured in different ways. In particular, we are aware that some SPAC acquisitions are structured as reverse acquisitions, and also that the terms and types of financial instruments issued can differ.

Staff analysis of the questions asked in the submission

18. SPAC acquisitions are complex transactions that can be structured in different ways. In this paper, we analyse how the requirements in IFRS Accounting Standards apply to the submitted fact pattern. In doing so, we identify what, in our view, are the main questions an entity accounting for such a transaction would consider:

    (a) who is the acquirer? (paragraphs 21–24)

    (b) which IFRS Accounting Standard applies to the SPAC acquisition? (paragraphs 25–27)

    (c) what are the individual identifiable assets acquired? (paragraphs 28–34)

    (d) does the entity assume any liabilities as part of the acquisition? (paragraphs 35–39)

19. The paper then discusses follow-on questions an entity would consider, depending on whether the terms and conditions of the acquisition are such that:

    (a) the entity does not assume the SPAC's warrants (paragraphs 40–45).

    (b) the entity assumes the SPAC's warrants (paragraphs 46–55).

20. In addition:

    (a) Appendix D analyses a variation of the submitted fact pattern in which the SPAC acquisition is structured as a reverse acquisition; and

    (b) Appendix E includes a decision tree illustrating the different outcomes for the fact patterns we considered.

Who is the acquirer?

21. The first step in determining how to account for a SPAC acquisition is identifying the acquirer in the transaction—that is, which entity obtains control of the acquiree.[3] Identifying the acquirer is necessary to determine which entity accounts for the acquisition and whether the acquisition is a business combination in the scope of IFRS 3.

22. Appendix A of IFRS 3 defines:

    (a) *acquirer* as 'the entity that obtains control of the acquiree';

    (b) *acquiree* as 'the business or businesses that the acquirer obtains control of in a business combination'; and

    (c) *business combination* as 'a transaction or other event in which an acquirer obtains control of one or more businesses…'.

23. Paragraphs B13–B18 of IFRS 3 include requirements an entity applies in identifying the acquirer in a business combination. Applying these requirements, an entity might conclude that either:

    (a) *the SPAC is the acquirer*—in this case, the acquisition would meet the definition of a business combination in IFRS 3 because the acquiree (the

[3] In this paper, we use the term 'acquirer' to refer to the entity that obtains control of an acquiree, irrespective of whether the acquiree is a business.

operating entity) is a business. The SPAC would therefore apply IFRS 3 in accounting for the acquisition as a business combination; or

(b) *the entity is the acquirer*—in this case, the acquisition would not meet the definition of a business combination in IFRS 3 because the acquiree (the SPAC) is not a business. The operating entity would therefore not account for the transaction as a business combination.

24. In the submitted fact pattern, the entity is identified as the acquirer in the transaction. Having determined that the transaction is not a business combination in the scope of IFRS 3, the entity then considers which IFRS Accounting Standard applies to the acquisition.

Which IFRS Accounting Standard applies to the SPAC acquisition?

25. Paragraph 2 of IFRS 3 states:

> This IFRS applies to a transaction or other event that meets the definition of a business combination. This IFRS does not apply to:
>
> …
>
> (b) the acquisition of an asset or a group of assets that does not constitute a *business*. In such cases the acquirer shall identify and recognise the individual identifiable assets acquired (including those assets that meet the definition of, and recognition criteria for, *intangible assets* in IAS 38 *Intangible Assets*) and liabilities assumed. The cost of the group shall be allocated to the individual identifiable assets and liabilities on the basis of their relative fair values at the date of purchase. Such a transaction or event does not give rise to goodwill.

26. The acquisition of the SPAC is the acquisition of 'an asset or a group of assets that does not constitute a business' as referred to in paragraph 2(b) of IFRS 3. Applying that paragraph, an entity identifies and recognises the individual identifiable assets acquired and liabilities assumed as part of the SPAC acquisition.

27. We have analysed separately:

(a) the individual identifiable assets acquired (paragraphs 28–34); and

(b) any liabilities assumed (paragraphs 35–39).

What are the individual identifiable assets acquired?

28. The main purpose of a SPAC acquisition is for the entity to acquire cash and the SPAC's stock exchange listing. The entity therefore considers whether:

    (a) the stock exchange listing is an identifiable asset acquired; and, if not

    (b) whether the entity receives a stock exchange listing service as part of the acquisition.

Is the stock exchange listing an identifiable asset acquired?

29. Paragraph 8 of IAS 38 *Intangible Assets* defines an intangible asset as an 'identifiable non-monetary asset without physical substance'. Paragraph 12 of that Accounting Standard states that an asset is identifiable if it either:

> (a) is separable, ie is capable of being separated or divided from the entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable asset or liability, regardless of whether the entity intends to do so; or
>
> (b) arises from contractual or other legal rights, regardless of whether those rights are transferable or separable from the entity or from other rights and obligations.

30. A stock exchange listing does not meet the definition of an intangible asset in IAS 38 because it is not 'identifiable' as described in paragraph 12 of that Accounting Standard. Accordingly, it does not form part of the identifiable assets acquired that the entity recognises applying paragraph 2(b) of IFRS 3.

Does the entity acquire a stock exchange listing service?

31. Paragraph 2 of IFRS 2 states:

> 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.

32. Paragraph 13A of IFRS 2 states:

> In particular, 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).

33. An entity acquiring a SPAC might often issue equity instruments with a fair value that exceeds the fair value of the identifiable net assets held by the SPAC.[4] An entity agrees to transfer that excess fair value because it also acquires a stock exchange listing as part of the transaction—in other words, the entity would likely have issued fewer instruments as consideration if the SPAC were unlisted.

34. In the submitted fact pattern, the fair value of the equity instruments the entity issues to acquire the SPAC exceeds that of the identifiable net assets of the SPAC. Therefore, in our view 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 equity instruments issued to acquire the SPAC and the fair value of the identifiable net assets acquired.

[4] In this section, the term 'equity instruments' refer to instruments that would be considered equity instruments in accordance with the requirements in IFRS 2.

Does the entity assume any liabilities as part of the acquisition?

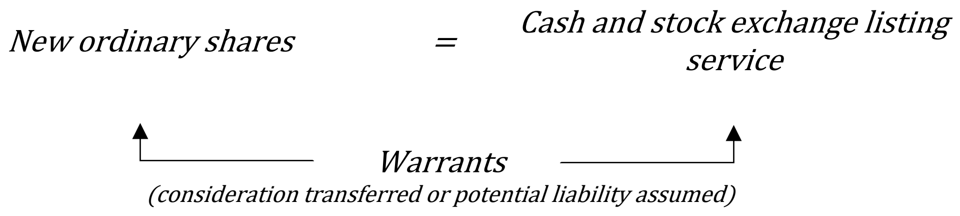
35. In acquiring a SPAC, an entity might assume financial liabilities related to instruments the SPAC had issued to its founder shareholders and public investors. In the submitted fact pattern, the entity assesses whether it assumes any liabilities related to the founder and public warrants (the SPAC warrants).

36. In assessing whether it identifies and recognises any liabilities related to the SPAC warrants, an entity considers the specific facts and circumstances of the acquisition, including the terms and conditions of all agreements associated with the acquisition. In making this assessment, the entity might conclude that the terms and conditions are such that it either:

    (a) *assumes the SPAC warrants as part of the acquisition and then replaces them with new warrants*—in this case, the new warrants are issued to replace the warrants assumed in the acquisition, rather than issued as consideration for the acquisition.

    (b) *does not assume the SPAC warrants as part of the acquisition*—in this case, the new warrants are issued as consideration for the acquisition. The entity does not assume the SPAC warrants because they are cancelled as part of the acquisition.

37. We note that the warrants are either consideration for the acquisition, or part of the identifiable net assets acquired, but cannot be both. The entity either issues new warrants to acquire the SPAC, or issues them to replace instruments it assumes as part of the acquisition—the entity would not issue new warrants to replace an instrument for which it has no obligation. The following diagram illustrates how warrants would fit into an equation showing what is being exchanged:


New ordinary shares
=
Cash and stock exchange listing service
Warrants
(consideration transferred or potential liability assumed)

38. In the following paragraphs, we analyse separately the accounting the entity applies in the two situations described above—that is, situations in which the terms and

conditions of the acquisition are such that the entity concludes that, as part of the acquisition, it:

(a) does not assume the SPAC warrants (paragraphs 40–45); and

(b) assumes the SPAC warrants (paragraphs 46–55)

39. Appendix D to this paper analyses a fact pattern in which the SPAC acquisition is structured as a reverse acquisition and explains how the analysis in that fact pattern differs from the analysis in the main body of this paper.

Conclusion 1: the entity does not assume the SPAC warrants

40. If the terms and conditions are such that the entity does not assume the SPAC warrants as part of the acquisition, that means the entity issues the new warrants as consideration for the acquisition (and not to replace previously assumed warrants). In that case, the entity issues new shares and new warrants to the SPAC's former owners to obtain control of the SPAC, acquiring cash and a stock exchange listing service. The following equation represents what is exchanged in the transaction:

$$\begin{array}{c} \textit{New ordinary shares and} \\ \textit{warrants} \end{array} = \begin{array}{c} \textit{Cash and} \\ \textit{stock exchange listing service} \end{array}$$

Which IFRS Accounting Standard applies to the instruments issued?

41. The entity considers the following requirements in IAS 32 and IFRS 2 in determining which of those Accounting Standards apply to the instruments issued:

(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….

42. In our view, in accordance with the requirements in IAS 32 and IFRS 2 set out above, the entity applies:

    (a) IFRS 2 in accounting for shares and warrants issued to acquire the stock exchange listing service—although the listing service is not specifically identifiable in the transaction, the circumstances of the transaction indicate that the entity receives that service and has issued shares and warrants for it (see paragraph 31–33 of this paper); and

    (b) IAS 32 in accounting for the shares and warrants issued to acquire cash—these instruments were not issued to acquire goods or services and are therefore outside the scope of IFRS 2.

43. Consequently, the acquisition transaction is not in the scope of IFRS 2 in its entirety. In our view, there is no basis in IFRS Accounting Standards to account for the acquisition transaction in its entirety as a share-based payment transaction in the scope of IFRS 2.

Which instruments were issued for cash and which were issued for services?

44. There are no requirements in IFRS Accounting Standards that specifically apply in allocating the shares and warrants issued to the acquisition of cash or the stock exchange listing service. However, in our view:

    (a) an entity would not make such allocation solely to achieve a particular accounting outcome (for example, it would be inappropriate to allocate all the warrants to the acquisition of the stock exchange listing service solely to avoid their accounting as financial liabilities applying IAS 32); and

    (b) an entity could allocate the shares and 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 issued 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, it would be appropriate that 80% of the fair value of the instruments issued for the acquisition of cash also comprise ordinary shares.

45. The following example illustrates the accounting when the entity concludes that it does not assume the SPAC warrants as part of the acquisition (including applying the method described in paragraph 44(b)):

Illustrative example—SPAC warrants are not assumed as part of the acquisition

An entity enters into an acquisition agreement to obtain control of a SPAC. The only identifiable asset of the SPAC is cash of CU90. The entity concludes that the terms and conditions of the transaction are such that it does not assume the SPAC warrants as part of the acquisition. The entity issues the following instruments as consideration for the acquisition:

(a) ordinary shares with a fair value of CU80;

(b) public warrants with a fair value of CU8; and

(c) founder warrants with a fair value of CU12.

The entity therefore agreed to transfer to the SPAC's former owners consideration totalling CU100 (CU80 + CU8 + CU12). The entity agreed to transfer consideration that exceeds the fair value of the cash held by the SPAC because it will also acquire the SPAC's stock exchange listing as part of the acquisition. Applying paragraphs 2 and 13A of IFRS 2, the entity determines it issued instruments with a fair value of CU10 to acquire a stock exchange listing service (the difference between the fair value of the consideration transferred and the cash acquired).

The founder and public warrants meet the definition of a financial liability in IAS 32. However, if issued as part of a share-based payment arrangement, they would be accounted for as equity instruments issued in an equity-settled share-based payment transaction and, therefore, recognised as equity.

The entity allocates the shares and warrants to the acquisition of cash and the stock exchange listing service in the same proportion as the fair value of each type of instrument to the total fair value of all issued instruments, as follows:

1. The entity calculates the proportion of the fair value of each type of instrument to the total fair value of all issued instruments:

Instruments	Fair value	Proportion
Ordinary shares	80	80%

Public warrants	8	8%
Founder warrants	12	12%
Total	**100**	**100%**

2. The entity allocates instruments between those issued to acquire cash and those issued to acquire the listing service, based on the proportions calculated above:

	Cash		
Instruments	**Fair value**	**Proportion**	**Classification (IAS 32)**
Ordinary shares	72	80%	Equity
Public warrants	7	8%	Liability
Founder warrants	11	12%	Liability
Total	**90**	**100%**	

	Listing service		
Instruments	**Fair value**	**Proportion**	**Classification (IFRS 2)**
Ordinary shares	8	80%	Equity
Public warrants	1	8%	Equity
Founder warrants	1	12%	Equity
Total	**10**	**100%**	

The following table summarises the classification of the instruments as equity or liability:

Instruments	**Liability**	**Equity**	**Total**
Ordinary shares	-	80	**80**
Public warrants	7	1	**8**
Founder warrants	11	1	**12**
Total	**18**	**82**	**100**

The entity would record the following in accounting for the acquisition:

Dr	Cash		90	
Dr	Listing service expense		10	
	Cr	Equity		82
	Cr	Financial liabilities		18

Conclusion 2: the entity assumes the SPAC warrants as part of the acquisition

46. If the terms and conditions are such that the entity assumes the SPAC warrants as part of the acquisition, that means the entity issued the new warrants to replace those warrants assumed. In that case, because the entity negotiated the replacement together with the SPAC acquisition, the entity considers to what extent it would account for the replacement transaction as part of the acquisition or separately from it.

Does the entity account for the replacement separately from the acquisition?

47. Because the acquisition transaction is not a business combination in the scope of IFRS 3, there are no requirements in IFRS Accounting Standards that specifically apply to this consideration. Therefore, the entity would apply paragraphs 10–11 of IAS 8 in developing an accounting policy.

48. 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.[5] 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 in the stock exchange. In that case, the entity would account for the replacement of the warrants separately from the acquisition.

49. If an entity concludes that it accounts for the replacement separately from the SPAC acquisition, the entity would first account for the SPAC warrants it assumes as part of the acquisition, and then separately account for their replacement.[6] Accordingly, the following equation would represent what was exchanged in the transaction:

$$\textit{New ordinary shares} \quad = \quad \begin{array}{c}\textit{Cash, stock exchange listing service} \\ \textit{and any liabilities related to SPAC} \\ \textit{warrants}\end{array}$$

[5] Paragraph B50 of IFRS 3 includes factors an entity considers in determining whether a transaction is part of the exchange for the acquiree or separate from a business combination.

[6] The accounting for the replacement of the warrants is discussed in paragraph 54 of this paper.

How does the entity account for SPAC warrants assumed in the acquisition?

50. In our view, an entity applies IAS 32 in assessing whether the SPAC warrants assumed as part of the acquisition are financial liabilities or equity instruments. The entity does so even if some of the warrants were originally issued as part of a share-based payment transaction of the SPAC—as in the case of the founder warrants in the submitted fact pattern. This is because:

(a) the entity recognises the identifiable assets it acquires and liabilities it assumes as part of the acquisition regardless of the accounting applied by the SPAC. The entity therefore considers whether the warrants are:

(i) part of a share-based payment transaction it assumes as part of the acquisition; or

(ii) held by the founder shareholders solely in their capacity as owners of the SPAC.

(b) in the submitted fact pattern, the entity does not assume a share-based payment transaction—the founder shareholders are neither SPAC employees nor do they provide continued services to the entity after the acquisition. Rather, the entity assumes the warrants as instruments held by the founders *solely* in their capacity as owners of the SPAC. This is different from a situation in which an entity assumes share-based payment transactions with an acquiree's employees in their capacity as employees or with a counterparty that provides continued service to the entity after the transaction.

51. Our analysis above does not mean that an entity applies IAS 32 to an equity instrument issued as part of a share-based payment transaction at the time when no outstanding service or vesting conditions remain (as discussed in View B for Question 2 in the submission). Our analysis discusses only the accounting for instruments an entity assumes as part of a SPAC acquisition.

Which IFRS Accounting Standard applies to the instruments issued?

52. Similar to the analysis set out in paragraph 42 of this paper, the entity would apply:

(a) IFRS 2 in accounting for the new ordinary shares issued to acquire the stock exchange listing service; and

(b) IAS 32 in accounting for the new ordinary shares issued to acquire cash and for assuming any liability related to the SPAC warrants.

53. If the entity concludes that it assumes the SPAC warrants as part of the acquisition, this means that the entity issues only one type of instrument to acquire the SPAC (new ordinary shares). Consequently, the question about how to allocate instruments —discussed in paragraph 44 of the paper—does not arise.

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

54. In the submitted fact pattern, both the public warrants and the founder warrants would be classified as financial liabilities applying IAS 32 and, therefore, would be recognised as such as part of the acquisition. The entity would therefore account for their replacement applying the applicable requirements in IFRS 9 *Financial Instruments*.[7]

55. The following example illustrates the accounting when the entity concludes that it assumes the SPAC warrants as part of the acquisition:

Illustrative example—SPAC warrants are assumed as part of the acquisition

The fact pattern is the same as the one in the illustrative example after paragraph 45 of this paper, except that the entity concludes that the terms and conditions of the transaction are such that it assumes the SPAC warrants as part of the acquisition.

The entity accounts for the replacement of the warrants separately from the SPAC acquisition—therefore, it first accounts for the SPAC warrants it assumes as part of the acquisition, and then separately accounts for their replacement.

The SPAC warrants and the new warrants issued to replace them have the same terms, the same fair value at the acquisition date and meet the definition of a financial liability in IAS 32.

Accordingly, the entity accounts for the ordinary shares it issues to:

(a) acquire the stock exchange listing service of CU10 by applying IFRS 2; and

(b) acquire cash of CU90 and assume the liabilities related to the SPAC warrants of CU20 by applying IAS 32.

[7] Appendix F to this paper explains why, in our view, the new warrants issued by the entity are not in the scope of IFRS 2.

The ordinary shares are equity instruments applying IFRS 2 or IAS 32 and, therefore, the entity recognises equity of CU80. The entity would record the following in accounting for the acquisition:

Dr	Cash		90	
Dr	Listing service expense		10	
	Cr	Equity		80
	Cr	Financial liabilities		20

The entity would account for the replacement of the warrants applying IFRS 9. Because the SPAC warrants and the new warrants have the same fair value, the entity would recognise no gain or loss as result of the replacement.

Other considerations

Consistency with the March 2013 agenda decision

56. The submission mentions the Agenda Decision *Accounting for reverse acquisitions that do not constitute a business* (March 2013), which discusses a related fact pattern. Appendix C to this paper reproduces the March 2013 agenda decision.

57. The analysis set out in this paper is consistent with the Committee's conclusion in the March 2013 agenda decision in that the entity recognises a share-based payment expense in relation to the stock exchange listing service it receives as part of the transaction.

58. The March 2013 agenda decision does not consider the classification of the instruments issued as part of the acquisition. In that fact pattern, the instruments were shares deemed to have been issued by the entity—unlike the fact pattern described in this submission, that fact pattern did not involve the issuance of different types of instruments as part of the acquisition. The questions in the submission discussed in this paper are specifically about the classification of the instruments issued to acquire the SPAC and, therefore, require analysis of how IAS 32 and IFRS 2 apply in classifying these instruments.

Conclusion

59. Based on our analysis in paragraphs 21–58 and Appendix D to this paper, for the submitted fact pattern and the variation analysed we conclude that:

(a) in acquiring the SPAC, the entity acquires a group of assets that does not constitute a business. The entity identifies and recognises the identifiable assets acquired and liabilities assumed in the acquisition.

(b) the entity considers the specific facts and circumstances—including the terms and conditions of all agreements associated with the acquisition—to determine whether it assumes the SPAC warrants as part of the acquisition:

(i) if the entity assumes the warrants, it applies IAS 32 to determine whether those warrants are financial liabilities or equity instruments. In a SPAC acquisition structured as a reverse acquisition, the entity assumes the SPAC warrants as part of the acquisition (see Appendix D for further discussion).

(ii) if the entity does not assume the warrants, any new warrants issued are part of the consideration for the acquisition.

(c) if the entity assumes the SPAC warrants as part of the acquisition and then replaces them with new warrants, it considers whether to account for the replacement as part of the acquisition or separately from it.

(d) because the fair value of the instruments issued to acquire the SPAC exceeds that of the identifiable net assets of the SPAC acquired, 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 service as the difference between the fair value of the instruments issued to acquire the SPAC and the fair value of the net assets acquired.

(e) the entity applies:

(i) IFRS 2 in accounting for instruments issued to acquire the stock exchange listing service; and

(ii) IAS 32 in accounting for instruments issued to acquire the net assets of the SPAC—cash and any liability related to the SPAC warrants.

(f) the entity applies judgement in allocating the shares and warrants issued between those issued to acquire the stock exchange listing service and those issued to acquire the net assets of the SPAC. The entity would not allocate the shares and warrants solely to achieve a particular accounting outcome. The entity could allocate those instruments on the basis of the relative fair values of each type of instrument issued.

Question 1 for the Committee

Does the Committee agree with our analysis in paragraphs 21–58 and Appendix D to this paper (summarised in paragraph 59 above) regarding the application of IFRS Accounting Standards to the fact pattern described in the submission and the variation thereof?

Whether to add a standard-setting project to the work plan

60. Paragraph 5.16 of the IFRS Foundation *Due Process Handbook* states that the Committee decides to add a standard-setting project to the work plan only if, among other things, it is necessary to add or change requirements in IFRS Accounting Standards to improve financial reporting—that is, the principles and requirements in IFRS Accounting Standards do not provide an adequate basis for an entity to determine the required accounting.

61. Based on our analysis in paragraphs 21–58 and Appendix D to this paper, we conclude that this criterion is not satisfied—the principles and requirements in IFRS Accounting Standards provide an adequate basis for an entity to determine the accounting for warrants on acquiring a SPAC in the submitted fact pattern and the variation thereof.

Staff recommendation

62. For the reasons described in paragraph 61, we recommend that the Committee not add a standard-setting project to the work plan. We recommend that the Committee instead publish a tentative agenda decision that outlines how IFRS Accounting Standards apply in the submitted fact pattern and the variation thereof.

63. Appendix A to this paper sets out the proposed wording of the tentative agenda decision. In our view, the proposed tentative agenda decision (including the explanatory material contained within it) would not add or change requirements in IFRS Accounting Standards.[8]

Questions 2 and 3 for the Committee

2. Does the Committee agree with our recommendation not to add a standard-setting project to the work plan?
3. Does the Committee have any comments on the proposed wording of the tentative agenda decision in Appendix A to this paper?

[8] Paragraph 8.4 of the *Due Process Handbook* states: 'Agenda decisions (including any explanatory material contained within them) cannot add or change requirements in IFRS Standards. Instead, explanatory material explains how the applicable principles and requirements in IFRS Standards apply to the transaction or fact pattern described in the agenda decision.'

Appendix A—proposed wording of the tentative agenda decision

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

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

The Committee noted that SPAC acquisitions can be structured in different ways. The Committee therefore discussed the fact pattern described in the submission as well as a possible variation to that fact pattern.

In the fact pattern discussed by the Committee:

(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 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 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:

   i. *founder warrants* were issued at the SPAC's formation as consideration for services provided by the founders. The founders will provide no services to the entity after the acquisition.

   ii. *public warrants* were issued to public investors together 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 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 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.

Variation to the fact pattern—reverse acquisition

The entity's acquisition of a SPAC is structured as a reverse acquisition. The SPAC issues ordinary shares to the entity's owners in exchange for the entity's ordinary shares. The entity's owners control the group after the transaction. The entity becomes a wholly-owned subsidiary of the SPAC, which remains the entity listed in the stock exchange. The SPAC's warrants survive the transaction.

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 entity obtains control of the other entity. Identifying the acquirer is necessary to determine which entity 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.

Specific considerations for a reverse acquisition

If the SPAC acquisition is structured as a reverse acquisition, there is no IFRS Accounting Standard that specifically applies. In applying paragraphs 10–11 of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* to develop an accounting policy for the transaction, the entity refers to, and considers the applicability of, the requirements in paragraphs B19–B27 of IFRS 3 on reverse acquisitions. Applying those requirements, the entity is deemed to have issued ordinary shares to obtain control of the SPAC.

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 a group of assets that does not constitute a business. The entity therefore 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 (the warrants the SPAC had issued to its founder shareholders and public investors).

Does the entity assume the SPAC warrants?

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.

The entity might conclude that the terms and conditions 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; or

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

Specific considerations for a reverse acquisition

If the SPAC acquisition is structured as a reserve acquisition, the SPAC warrants survive the acquisition transaction. The entity therefore assumes the SPAC warrants as part of the acquisition.

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

If the terms and conditions are such that the entity assumes the SPAC warrants as part of the acquisition, the entity applies IAS 32 to determine whether the warrants are financial liabilities or equity instruments. Assuming the SPAC warrants as part of the acquisition does not mean that the entity assumes a share-based payment transaction in the scope of IFRS 2 *Share-based Payment*. In the fact pattern discussed, the SPAC's founder shareholders are not SPAC employees nor will they provide services to the entity after the acquisition. Instead, the entity assumes the founders warrants as instruments held by the founders solely in their capacity as owners of the SPAC.

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 together with the SPAC acquisition. The entity therefore considers to what extent it accounts for the replacement transaction as part of that acquisition.

There is no IFRS Accounting Standard that specifically applies to this consideration. In applying paragraphs 10–11 of IAS 8 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 applies the applicable requirements in IAS 32 and IFRS 9 *Financial Instruments* to do so.

Specific considerations for a reverse acquisition

If the SPAC acquisition is structured as a reverse acquisition, the SPAC warrants are not replaced. Therefore, the considerations in this section are not applicable.

Does the entity also acquire a stock exchange listing service?

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.'

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).'

In the fact pattern discussed, 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 acquired. The Committee therefore 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 on the specific facts and circumstances of the transaction, the entity issues ordinary shares—or ordinary shares and warrants—in exchange for acquiring cash, the stock exchange listing service and for assuming any liabilities related to the SPAC warrants.

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). IFRS 2 applies to 'share-based payment transactions in which an entity acquires or receives goods or services…' (paragraph 5 of IFRS 2).

The Committee therefore 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—those instruments were not issued to acquire goods or services and are not in the scope of IFRS 2.

Which instruments were issued for the SPAC's net assets and which were issued for the service?

If the entity concludes that the terms and conditions are such that it does not assume the SPAC warrants as part of the acquisition, the entity issues both ordinary shares and 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. There is no IFRS Accounting Standard that specifically applies to this determination. Nonetheless, the Committee observed that:

(a) an entity would not make this determination solely to achieve a particular accounting outcome (for example, it would be inappropriate to conclude that all the warrants were issued to acquire the stock exchange listing service solely to avoid their accounting as financial liabilities applying IAS 32); and

(b) an entity could allocate the shares and 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.

Conclusion

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

Appendix B—submission

B1. We have reproduced the submission below, and in doing so deleted details that would identify the submitter of this request.

…

Transactions with a special purpose acquisition company (SPAC): how should founder and public warrants be classified after a SPAC has been acquired?

Background

A special purpose acquisition company ("SPAC") is a newly formed company that raises cash in an initial public offering ("IPO"). Within a short time period thereafter, the SPAC is acquired by an operating company ("OpCo") that issues shares to the shareholders of the SPAC in exchange for all the equity of the SPAC. The value of the equity instruments issued by the OpCo typically exceeds the value of the identifiable assets in the SPAC.

Before the acquisition, the SPAC holds no material assets other than cash. The owners of the OpCo typically retain the majority of the equity (and control) of the OpCo after the acquisition. After the acquisition, the OpCo becomes a public company (or in some cases, the legal subsidiary of a public company). This type of transaction is similar in some ways to a transaction that was considered previously by the IFRS Interpretations Committee (Accounting for reverse acquisitions that do not constitute a business) and resulted in an agenda decision in March 2013 - March 2013 Agenda decision ("the March 2013 Agenda Decision"). It is similar in that the accounting acquirer is issuing shares in exchange for something other than a business and the value of those shares exceeds the value of the identifiable assets acquired, i.e. an unidentifiable good/service represented by a listing service.

Warrants are typically issued to the founders of the SPAC at its formation. Warrants are also issued to the public investors of the SPAC at the time of the SPAC IPO. The warrants held by the public investors are typically classified as liabilities in accordance with IAS 32. The warrants provided to the founders are typically considered to be an equity settled share-based payment within the scope of IFRS 2 because the founders provide services to the SPAC in exchange for the warrants.

The warrants in the SPAC are considered in determining the appropriate exchange ratio of equity between the SPAC and OpCo shareholders to affect the accounting acquisition of the SPAC by the OpCo. When the value of the equity given up by the OpCo shareholders is compared to the fair value of the assets received (i.e. the cash in the SPAC), there is typically an "overpayment". Applying the principles from the March 2013 Agenda Decision, this overpayment is considered to be an IFRS 2 share-based payment expense that represents a listing service.

The warrants are taken into account when determining the share-based payment expense. The questions we would like the Committee to consider relate to the accounting for the OpCo consolidated group:

1. At the acquisition, are the warrants in the scope of IFRS 2 as part of the equity instruments issued, or do they represent a liability assumed in the SPAC?

2. After the acquisition, do the warrants remain in the scope of IFRS 2, or are they in the scope of IAS 32?

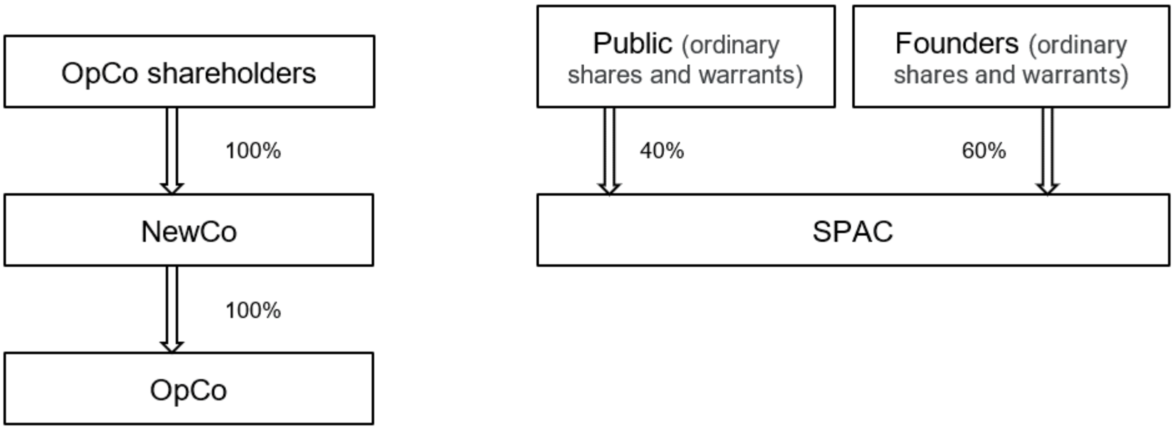
The following example explains the specifics of such transactions and our questions in more detail:

Example

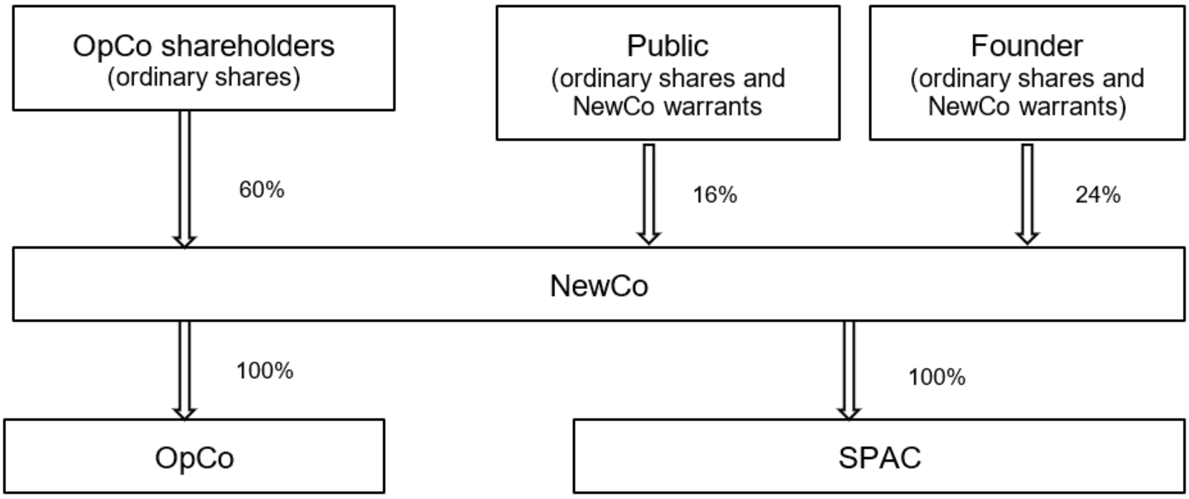
The parties to the acquisition agreement are SPAC, NewCo and OpCo. NewCo is newly established by OpCo shareholders for the purposes of the transaction, and it owns 100% of OpCo.

The SPAC is owned 40% by public investors as a result of the historic SPAC IPO, and 60% by founder shareholders. Both the public investors and founder shareholders hold warrants in the SPAC.

The following simplified diagram illustrates the ownership structure immediately prior to the consummation of the acquisition:


OpCo shareholders
100%
NewCo
100%
OpCo
Public (ordinary shares and warrants)
Founders (ordinary shares and warrants)
40%
60%
SPAC

The following simplified diagram illustrates the ownership structure immediately following the acquisition:


OpCo shareholders (ordinary shares)
Public (ordinary shares and NewCo warrants
Founder (ordinary shares and NewCo warrants)
60%
16%
24%
NewCo
100%
100%
OpCo
SPAC

As part of the acquisition arrangement, NewCo issues new shares and warrants to Public and Founder shareholders. In doing so, NewCo's shares replace the SPAC shares as the listed instruments on the public stock exchange and the SPAC is simultaneously delisted and becomes a wholly-owned subsidiary of NewCo. Holders of SPAC shares and warrants will exchange their SPAC shares and warrants for shares and warrants of NewCo. The warrants in the NewCo will have the same terms and conditions as the warrants in the SPAC, but they give the holder a right to obtain shares in the NewCo rather than the SPAC. The NewCo warrants issued to the public investors will be listed and freely tradeable. NewCo warrants issued to the founders are not listed and contain different terms which impacts their fair value. None of the NewCo warrants contain any vesting conditions and will remain outstanding until exercised.

The SPAC warrants which are held by NewCo are then cancelled as part of the acquisition arrangement.

Other structures & steps are possible, but the substance of the transaction is that OpCo is the reporting entity from an accounting perspective and this can be assumed for purposes of the submission. References to NewCo can apply equally to OpCo from a consolidated perspective.

When NewCo issues the equity instruments to obtain the SPAC, the fair value of the equity instruments issued exceeds the identifiable assets in the SPAC (i.e. the cash). This gives rise to a share-based payment expense representing a listing fee for NewCo consolidated. As explained above, the founder and public warrants will be taken into account in determining this share-based payment expense (i.e the listing expense) for the NewCo consolidated group at the date of the acquisition based on the principles established in the March 2013 Agenda Decision.

The warrants can be taken into account when determining the share-based payment expense by either:

- Treating the warrants as an assumed liability if they are classified as liabilities within the SPAC; or
- Including the warrants as part of the equity instruments issued by the consolidated NewCo group to acquire the cash and listing service in the SPAC.

We understand that from a valuation perspective, under either of the above approaches there may be little or no difference in the share-based payment expense. However, this question is relevant because it might impact which accounting standard applies to the warrants after the acquisition (i.e. IFRS 2 or IAS 32). This in turn might impact the classification of the warrants as liabilities or equity in the consolidated NewCo group following the acquisition. This is because the warrants would violate the “fixed for fixed” requirement in IAS 32 and would not qualify as equity if they were evaluated under that standard (e.g. because they contain cashless exercise or other features that prevent them from being classified as equity). However, if evaluated under IFRS 2 both types of warrants would be considered an equity settled share-based payment transaction.

Question 1. At the date of the acquisition transaction, are the warrants issued by the consolidated NewCo group in the scope of IFRS 2 as part of the equity instruments issued, or do they represent a liability assumed in the SPAC?

View A: The warrants issued by the consolidated NewCo group are part of the equity instruments issued in the share-based payment transaction

The NewCo has entered into a share-based payment transaction based on the principles established in the March 2013 Agenda Decision.

The accounting treatment of the warrants by the consolidated NewCo group is agnostic to the previous accounting of the warrants by the SPAC. From the NewCo group's perspective, it becomes a party to the SPAC warrants for the first time at the acquisition date. At this time, the SPAC warrants cease to exist and the only warrants that are relevant from a NewCo group perspective are those that the NewCo group issues to affect the share-based payment. The NewCo group warrants form part of the equity instruments issued (together with the shares issued by NewCo) based on the definition in Appendix A of IFRS 2:

> *An agreement between the entity (or another group entity or any shareholder of any group entity) and another party (including an employee) that entitles the other party to receive*
>
> *a) ..., or*
> *b) equity instruments (including shares or share options) of the entity or another group entity*

Appendix A of IFRS 2 goes on to define share options as, *"A contract that gives the holder the right, but not the obligation, to subscribe to the entity's shares at a fixed or determinable price for a specified period of time."* A warrant is a share option, it gives the holder the right to shares in the future.

Furthermore, the commercial exchange between NewCo and the SPAC contemplates the SPAC warrants as equity instruments when determining the appropriate exchange ratio of NewCo equity for SPAC equity.

Proponents of View A conclude that the commercial objective and IFRS requirements align to provide the appropriate outcome, i.e. that the warrants issued by the NewCo group are part of the equity instruments issued in a share-based payment arrangement.

View B: The standard applicable to the classification of the warrants for the consolidated NewCo group at the acquisition depends on which standard applies to the warrants in the SPAC's financial statements

The NewCo group has entered into a share-based payment transaction based on the principles established in the March 2013 Agenda Decision. The Interpretations Committee observed that on the basis of the guidance in paragraph 13A of IFRS 2, any difference in the fair value of the shares deemed to have been issued by the accounting acquirer and the fair value of the accounting acquiree's identifiable net assets represents a service received by the accounting acquirer.

The accounting acquiree is the SPAC. The identifiable net assets of the SPAC include (a) the cash in the SPAC and (b) a liability for those warrants classified as liabilities in accordance with IAS 32. The warrants issued by the NewCo group are in-substance the same warrants as those that existed in the SPAC, they have merely been transferred to the same shareholders in the new parent. Therefore, the accounting standard that applies to the NewCo warrants should not change as a result of the warrants' legal replacement as part of the acquisition.

Proponents of View B conclude that the NewCo group warrants that represent a liability of the SPAC should be considered part of the net assets assumed in exchange for the shares and other equity instruments issued by NewCo, i.e. the warrants classified as liabilities remain in the scope of IAS 32 in the share-based payment arrangement.

Question 2. How should the founder(s) and public warrants be accounted for following the acquisition in the NewCo consolidated group if they are equity instruments issued as part of a share based payment transaction?

Please note that Question 2 is relevant to either the founder and public warrants if the Committee concludes on View A for Question 1; or relevant to only the founder warrants if the Committee concludes on View B for Question 1. This is because the founder warrants were part of an equity settled share-based payment transaction in the scope of IFRS 2 within the SPAC, and are still considered to be an equity instrument of the SPAC at the acquisition date.

View A: When share options, which are accounted for under IFRS 2, have vested they remain in the scope of IFRS 2 until they are exercised and ordinary shares are issued

IAS 32 paragraph 4(f) scopes out financial instruments to which IFRS 2 applies. The warrants are financial instruments to which IFRS 2 applies. IFRS 2 paragraph 23 provides some guidance on treatment of awards post-vesting. Although the guidance in paragraph 23 does not address classification as liability or equity, the guidance demonstrates that share options continue to be considered under IFRS 2 post vesting until they are exercised.

Proponents of View A list the following examples that illustrate that IFRS 2 should continue to be applied post vesting before the share options are exercised:

- For employee share option plans, in cases where the strike price is denominated in a currency other than the functional currency of the entity, applying View B would effectively treat an award as cash settled from vesting to exercise date. This is inconsistent with the principle for equity settled share-based payments transactions.
- For employee share loan schemes that were considered by the Committee in November 2005, the conclusion reached was that these arrangements were in-substance share options in the scope of IFRS 2. Applying View B would effectively result in these share options being treated as a liability under IAS 32 (resulting in accounting similar to that of a cash settled share-based payment), which is inconsistent with the principle for equity settled share-based payments transactions and the November 2005 agenda decision.

View B: When share options, which are accounted for under IFRS 2, have vested they need to be accounted for under IAS 32.

After the acquisition, there are no outstanding service or vesting conditions that relate to the granted awards.

IAS 32 paragraph 4(f) scopes out "share-based payment transactions to which IFRS 2 *applies*" (emphasis added). After the listing expense is recognised as part of the IFRS 2 share-based payment transaction, IFRS 2 has been applied. Therefore the financial instruments are now subject to the requirements of IAS 32.

Proponents of View B note that after a service has been provided and an award (e.g. warrant) has no remaining vesting conditions, the award holders are the same as any holder of a financial instrument issued by the entity (i.e. NewCo in this case).

Therefore there is no reason why IAS 32 should not apply. In addition, proponents of View B note that the warrants are only part of a share-based payment arrangement from NewCo group's perspective for a moment in time. After the acquisition event, the share-based payment arrangement (ie the recognition of the listing service expense) is concluded and the substance of the warrants is that they are a financial instrument issued to an investor.

View C: The issue is more fundamental and should be considered as part of the IASB's FICE project. Until then, an entity should develop an appropriate accounting policy.

The classification and measurement requirements of IFRS 2 and IAS 32 are different. The tension that exists as a result of the scope interaction between IFRS 2 and IAS 32 being unclear is not a new issue. Answering this specific question might have broader implications to transactions that start out in the scope of IFRS 2.

The IASB currently has a project on its work plan to address common accounting challenges that arise in practice when applying IAS 32. It would make more sense for the Board to address this issue as part of that project.

Until the IASB considers this issue, entities would need to consider IAS 8 and develop an appropriate accounting policy.

Appendix C—March 2013 agenda decision

IFRS 3 *Business Combinations* (March 2013)
Accounting for reverse acquisitions that do not constitute a business

The Interpretations Committee received requests for guidance on how to account for transactions in which the former shareholders of a non-listed operating entity become the majority shareholders of the combined entity by exchanging their shares for new shares of a listed non-operating entity. However, the transaction is structured such that the listed non-operating entity acquires the entire share capital of the non-listed operating entity. In the absence of a Standard that specifically applies to this transaction the Interpretations Committee observed that the analysed transaction has some features of a reverse acquisition under IFRS 3 because the former shareholders of the legal subsidiary obtain control of the legal parent. Consequently, it is appropriate to apply by analogy, in accordance with paragraphs 10–12 of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*, the guidance in paragraphs B19–B27 of IFRS 3 for reverse acquisitions. Application of the reverse acquisitions guidance by analogy results in the non-listed operating entity being identified as the accounting acquirer, and the listed non-operating entity being identified as the accounting acquiree. The Interpretations Committee noted that in applying the reverse acquisition guidance in paragraph B20 of IFRS 3 by analogy, the accounting acquirer is deemed to have issued shares to obtain control of the acquiree. If the listed non-operating entity qualifies as a business on the basis of the guidance in paragraph B7 of IFRS 3, IFRS 3 would be applicable to the transaction. However, if the listed non-operating entity is not a business, the transaction is not a business combinations and is therefore not within the scope of IFRS 3. 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.

The Interpretations Committee observed that on the basis of the guidance in paragraph 13A of IFRS 2, any difference in the fair value of the shares deemed to have been issued by the accounting acquirer and the fair value of the accounting acquiree’s identifiable net assets represents a service received by the accounting acquirer. The Interpretations Committee concluded that, 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 payment for a service of a stock exchange listing for its shares, and that no amount should be considered a cost of raising capital. The Interpretations Committee observed that the service received in the form of a stock exchange listing does not meet the definition of an intangible asset because it is not “identifiable” in accordance with paragraph 12 of IAS 38 *Intangible Assets* (ie it is not separable). The service received also does not meet the definition of an asset that should be recognised in accordance with other Standards and the *Conceptual Framework*. The Interpretations Committee also observed that on the basis of the guidance in paragraph 8 of IFRS 2 which states that “when the goods or services received or acquired in a share-based payment transaction do not qualify for recognition as assets, they shall be recognised as expenses”, the cost of the service received is recognised as an expense. On the basis of the analysis above, the Interpretations Committee determined that, in the light of the existing IFRS requirements, neither an interpretation nor an amendment to Standards was necessary and consequently decided not to add this issue to its agenda.

Appendix D—SPAC acquisitions structured as a reverse acquisition

D1. We understand that some SPAC acquisition transactions are structured so that the SPAC legally acquires the equity instruments of an operating entity (the entity) in exchange for issuing its equity instruments to the entity's owners. The entity's owners then become the controlling shareholders of the combined group after the transaction. In such a structure:

(a) the entity would be identified as the acquirer applying the requirements discussed in paragraphs 21–24 of this paper, even though legally it is being acquired by the SPAC;

(b) because the SPAC does not constitute a business, the entity does not account for the transaction as a business combination in the scope of IFRS 3; and

(c) the SPAC remains the entity listed in the stock exchange after the acquisition—therefore, the SPAC warrants survive the transaction and are not replaced by new instruments.

D2. This appendix includes our analysis of a fact pattern in which the SPAC acquisition is structured as a reverse acquisition (instead of a direct acquisition). All the other facts and circumstances are the same as those in the submitted fact pattern.

Accounting for a reverse acquisition of a SPAC

D3. The structure described above is similar to the one discussed in the March 2013 agenda decision (see Appendix C to this paper). As explained in that agenda decision:

(a) the transaction has some features of a reverse acquisition in IFRS 3 because the former owners of the entity (the legal subsidiary) obtain control of the SPAC (the legal parent);

(b) applying paragraphs 10–11 of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*, an entity would refer to, and consider the applicability of, the requirements in paragraph B19–B27 of IFRS 3 on accounting for reverse acquisitions in developing and applying an accounting policy for the transaction; and

(c) applying those requirements:

(i) the entity is identified as the accounting acquirer and the SPAC as the accounting acquiree in the transaction; and

(ii) the entity is deemed to have issued ordinary shares to acquire the SPAC.

Which IFRS Accounting Standard applies to the SPAC acquisition?

D4. Similar to the analysis for the submitted fact pattern, the reverse acquisition of a SPAC is the acquisition of 'an asset or a group of assets that does not constitute a business' as referred to in paragraph 2(b) of IFRS 3. Applying that paragraph, an entity identifies and recognises the individual identifiable assets acquired and liabilities assumed as part of the SPAC acquisition.

What are the individual identifiable assets acquired?

D5. Similar to the submitted fact pattern, the fair value of the equity instruments the entity is deemed to have issued exceeds that of the identifiable net assets of the SPAC. In our view, applying paragraphs 2 and 13A of IFRS 2 the entity:

(a) receives a stock exchange listing service for which it has deemed to have 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 equity instruments issued to acquire the SPAC and the fair value of the identifiable net assets acquired.

Does the entity assume any liability as part of the acquisition?

D6. Unlike the submitted fact pattern, if a SPAC acquisition is structured as a reverse acquisition and the entity does not issue new warrants to replace the SPAC warrants, the SPAC warrants survive the transaction. Consequently, the entity assumes the SPAC warrants as part of the acquisition and recognises any liabilities related to those warrants. Accordingly, the following equation would represent what was exchanged in the transaction:

$$\textit{Ordinary shares deemed to have been issued} = \textit{Cash, stock exchange listing service and any liabilities related to SPAC warrants}$$

D7. The entity would apply IAS 32 in determining whether the SPAC warrants are financial liabilities or equity instruments for the reasons discussed in paragraph 50 of the paper.

Which IFRS Accounting Standard applies to the deemed shares issued?

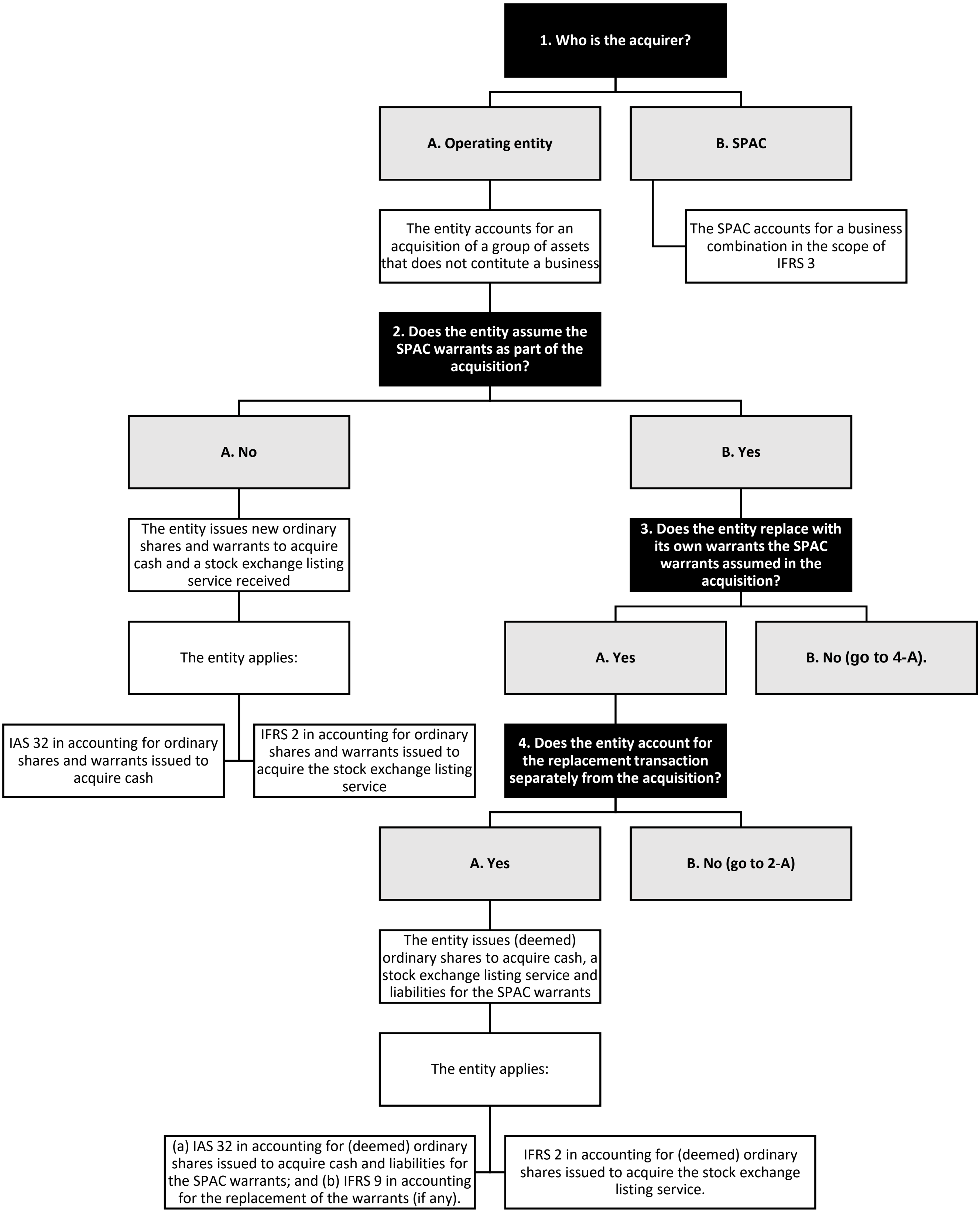
D8. As explained in paragraph D6 above, in a reverse acquisition of a SPAC, the entity is deemed to have issued shares in exchange for cash, a stock exchange listing service and any liability related to SPAC warrants it assumes. Similar to the analysis for the submitted fact pattern (see paragraph 42 of this paper), the entity would apply:

(a) IFRS 2 in accounting for the shares deemed to have been issued to obtain the stock exchange listing service; and

(b) IAS 32 in accounting for the shares deemed to have been issued to acquire cash and for assuming any liability related to the SPAC warrants.

D9. The allocation of instruments between those issued to acquire the stock exchange listing service and those issued to acquire cash (and any liability for the SPAC warrants), discussed in paragraph 44 of the paper, is irrelevant in this fact pattern—the entity is deemed to issue a single type of instrument (ordinary shares).

Appendix E—decision tree



1. Who is the acquirer?

A. Operating entity

The entity accounts for an acquisition of a group of assets that does not contitute a business

B. SPAC

The SPAC accounts for a business combination in the scope of IFRS 3

2. Does the entity assume the SPAC warrants as part of the acquisition?

A. No

The entity issues new ordinary shares and warrants to acquire cash and a stock exchange listing service received

The entity applies:

IAS 32 in accounting for ordinary shares and warrants issued to acquire cash

IFRS 2 in accounting for ordinary shares and warrants issued to acquire the stock exchange listing service

B. Yes

3. Does the entity replace with its own warrants the SPAC warrants assumed in the acquisition?

A. Yes

B. No (go to 4-A).

4. Does the entity account for the replacement transaction separately from the acquisition?

A. Yes

B. No (go to 2-A)

The entity issues (deemed) ordinary shares to acquire cash, a stock exchange listing service and liabilities for the SPAC warrants

The entity applies:

(a) IAS 32 in accounting for (deemed) ordinary shares issued to acquire cash and liabilities for the SPAC warrants; and (b) IFRS 9 in accounting for the replacement of the warrants (if any).

IFRS 2 in accounting for (deemed) ordinary shares issued to acquire the stock exchange listing service.

Appendix F—paragraph 5 of IFRS 2

F1. Paragraph 5 of IFRS 2 explains which transactions are in the scope of IFRS 2 and, in particular, the interaction with the scope requirements in IFRS 3. In the following paragraphs we analyse how an entity would apply paragraph 5 in determining whether the instruments issued as part of the SPAC acquisition are in the scope of IFRS 2.

The requirements in paragraph 5 of IFRS 2

F2. We have split the paragraph into three parts to facilitate the explanation of its requirements:

Parts of paragraph 5 of IFRS 2	**Summary**
‘As noted in paragraph 2, this IFRS 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.’	IFRS 2 applies only to the acquisition or receipt of goods or services—it does not apply to the acquisition of financial assets.
‘However, an entity shall not apply this IFRS to transactions in which the entity acquires goods as part of the net assets acquired in a business combination as defined by IFRS 3 *Business Combinations* (as revised in 2008), in a combination of entities or businesses under common control as described in paragraphs B1–B4 of IFRS 3, or the contribution of a business on the formation of a joint venture as defined by IFRS 11 *Joint Arrangements*. Hence, equity instruments issued in a business combination in exchange for control of the acquiree are not within the scope of this IFRS.’	IFRS 2 does not apply to instruments issued in a business combination (or similar transaction) in exchange for control of an acquiree.
‘However, equity instruments granted to employees of the acquiree in their capacity as employees (eg in return for continued service) are within the scope of this IFRS. Similarly, the cancellation, replacement or other modification of share-based payment arrangements because of a business combination or	Equity instruments granted to employees of the acquiree in their capacity as employees are within the scope of IFRS 2 (including cancellation, replacement or other modification because of a business

other equity restructuring shall be accounted for in accordance with this IFRS. IFRS 3 provides guidance on determining whether equity instruments issued in a business combination are part of the consideration transferred in exchange for control of the acquiree (and therefore within the scope of IFRS 3) or are in return for continued service to be recognised in the post-combination period (and therefore within the scope of this IFRS).'	combination or other equity restructuring). IFRS 3 includes requirements that apply in determining whether instruments are in its scope or that of IFRS 2.

Are the founder warrants in the scope of IFRS 2?

F3. Some might suggest that, in the submitted fact pattern, in applying paragraph 5 of IFRS 2 the warrants issued to the founder shareholders of the SPAC are in the scope of IFRS 2. They might consider that the entity issues these instruments as a replacement for a share-based payment arrangement of the SPAC because of an equity restructuring. Applying that view, the founder warrants issued would be in the scope of IFRS 2 because paragraph 5 states that '…the cancellation, replacement or other modification of share-based payment arrangements because of a business combination or other equity restructuring shall be accounted for in accordance with this IFRS'.

F4. In our view, IFRS 2 does not apply to the founder warrants, except to the extent they were issued for the acquisition of the stock exchange listing service (as discussed in paragraph 42(a) of this paper). This is because:

(a) paragraph 5 of IFRS 2 includes in the scope of IFRS 2 'equity instruments granted to employees of the acquiree *in their capacity as employees (eg in return for continued service)*' (emphasis added). In other words, equity instruments are in the scope of IFRS 2 only to the extent that they relate to continued service to be received after the acquisition. If equity instruments are issued to an employee (or another counterparty) solely in their capacity as owners of the acquiree, these instruments are not in the scope of IFRS 2—such instruments are 'consideration transferred in exchange for control of the acquiree'.

(b) the sentence 'similarly, the cancellation, replacement or other modification of share-based payment arrangements because of a business combination or other equity restructuring shall be accounted for in accordance with this IFRS' refers only to replacements of (a) share-based payments arrangements assumed as part of the acquisition with (b) new share-based payment arrangements of the entity (for example, share-based payment transactions with the acquiree's employees in their capacity as employees). In our view, in the submitted fact pattern, the entity neither:

(i) assumes a share-based payment transaction as part of the acquisition; nor

(ii) replaces these instruments with a new share-based payment transaction of the entity—the new founder warrants are issued to the SPAC's founders *solely* in their capacity as owners and not in return for continued service to the entity after the transaction (see discussion in paragraph 50 of this paper).