IFRIC Update: March 2022 (part 2)

Talking points for episode 128

These talking points summarise the discussion at the March IFRS Interpretations Committee meeting. This podcast focuses on the accounting implications in relation to the submissions on special purpose acquisition companies (SPACS) which includes the following topics:

- the classification of public shares as financial liabilities or equity; and
- the accounting for warrants at acquisition.

The remaining agenda items were discussed in **EP:127**.

The first submission focussed on the classification of public shares and the principles surrounding the decisions made when a target company for an IPO is not acquired in a specified timeframe. If the SPAC does not execute the acquisition:

a) it is either liquidated, or
b) the life of the SPAC is extended.

The terms can vary on who has the right to make the decisions in relation to liquidation or extension; and if a decision is made to extend, the terms can also vary on how this is done.

The submission asked whether the public shares should be classified as equity or as a financial liability. This depends primarily on whether the entity can avoid delivering cash to the public shareholders. The complexity arises on understanding **whether, and if so under which circumstances,** decisions made by the shareholders are considered to be **decisions of the entity**.

The committee concluded the issue in isolation was too narrow, and therefore have **deferred the issue** to the FICE project. The committee did clarify that **disclosure should be provided** in the notes to the financial statements on the classification of these shares.

The second agenda item relates to the accounting when a target has been identified and the transaction is executed. The submission asked whether warrants issued by the accounting acquirer are in the scope of IFRS 2 or IAS 32. The committee agreed to issue a tentative agenda considering the following:

- In this fact pattern, the **acquirer was the entity** rather than the SPAC from an accounting perspective.
- The SPAC **does not meet the definition** of a business under IFRS 3.
- The tentative agenda decision will provide factors on whether the SPAC warrants are **an assumed liability** in the acquisition or whether they are replaced by new warrants issued by the acquirer.
- If the warrants are assumed, this would mean that there is a **financial liability acquired** on acquisition.
- If the warrants are not assumed, this would be considered an **extinguishment of the warrants** held pre-merger. However, the portion of the new warrants issued for cash would be in the scope of IAS 32.
- As the fair value of the instruments issued exceeds the fair value of net assets acquired, the entity is also receiving a **stock exchanging service** in exchange for the shares issued. This listing fee would be **accounted for under IFRS 2** as a share-based payment arrangement.

Both tentative agenda decisions are now open for comments.