

## STAFF PAPER

September 2022

## IFRS® Interpretations Committee meeting

Project	Special Purpose Acquisition Companies (SPAC): Accounting for Warrants at Acquisition	
Paper topic	Comment letters	
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This paper has been prepared for discussion at a public meeting of the IFRS Interpretations Committee (Committee). This paper does not represent the views of the International Accounting Standards Board (IASB), the Committee or any individual member of the IASB or the Committee. Any comments in the paper do not purport to set out what would be an acceptable or unacceptable application of IFRS® Accounting Standards. The IASB's technical decisions are made in public and are reported in the IASB® *Update*. The Committee's technical decisions are made in public and are reported in IFRIC® *Update*.

## Introduction

1. This paper reproduces comment letters on the IFRS Interpretations Committee's tentative agenda decision 'Special Purpose Acquisition Companies (SPAC): Accounting for Warrants at Acquisition' published in March 2022.



Bruce Mackenzie  
Chair of the IFRS Interpretations Committee  
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**Financial Reporting Technical  
Committee**

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Berlin, 17 May 2022

Dear Bruce,

### **IFRS IC's tentative agenda decisions in its March 2022 meeting**

On behalf of the Accounting Standards Committee of Germany (ASCG), I am writing to comment on the tentative agenda decisions taken by the IFRS IC as published in the March 2022 *IFRIC Update*.

As regards the **tentative agenda decision on IAS 32**, we basically agree with the IFRS IC's findings. However, we acknowledge that the issue comprises a more general and broadly relevant question, whether an action (or a decision) of the shareholders, e.g. at a shareholders meeting, is an action (or a decision) of the entity. This question seems crucial and, as mentioned in the *IFRIC Update*, arises equally in other circumstances. Therefore, it deserves a timely answer.

Overall, we like to note that any matter being deferred to the FICE project – as has been repeatedly the case in the past – leads to a delayed answer or none at all. While this allows for comprehensive consideration of those issues, which – on its own – would be beneficial, the respective issue(s) often will not be solved in a timely manner, which is rather detrimental to accounting.

Regarding the **tentative agenda decision on IFRS 2 / IFRS 3 / IAS 32**, we do not fully support the findings and reasoning behind the decision. While the conclusions on who is the acquirer and whether the acquisition constitutes a business appear appropriate, two other findings do not seem intuitive.

Firstly, the idea of splitting the acquisition and allocating the shares and the warrants to the individual assets/liabilities acquired does not appear evident. Further, while the IFRS application and outcomes as regards accounting/measurement at the acquisition date are broadly

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explained, we acknowledge that further questions as regards subsequent measurement could arise – on which the decision’s wording is silent.

Secondly, the finding that considering the legal structure of the acquisition might lead to the conclusion that the acquirer (i) assumes the SPAC warrants or (ii) does not assume the SPAC warrants opens up room for judgement. We understand that the IFRS IC does not suggest which of the two conclusions applies to the fact pattern submitted, nor does the IFRS IC provide further details on how to appropriately conclude on this question more generally. Overall, we feel that the decision and the respective wording do not add to clarity or to consistent application.

As regards the **tentative agenda decision on IFRS 16** (in respect of the lessor), the decision and the reasons behind do not appear fully comprehensible. More generally, this issue again touches on the interaction of modification vs. impairment vs. write-off vs. derecognition, which still awaits clarification. (We refer to our respective comments in our comment letter, dated 28 January 2022, to the PIR on IFRS 9 / classification and measurement.) It seems worth integrating and discussing this complex issue comprehensively within the next PIR on IFRS 9 / section “Impairment”.

As regards the **tentative agenda decision on IFRS 17**, we agree with the conclusions of the IFRS IC on the technical matters, in particular with the general finding that IFRS 17.B119 contains a principle without prescribing particular methods for determining the quantity of benefits.

In addition, we like to note that this tentative agenda decision is taken close to the date of initial application of IFRS 17. While we do not generally object to solving application issues even close to initial application, we have been made aware of concerns by insurance entities in respect of this particular case.

Due to the complexity of IFRS 17, accompanied by a parallel run of IFRS 4 / IAS 39 and IFRS 17 / IFRS 9 throughout 2022, these entities are currently in a crucial period of implementation and facing a high workload. Hence, for these entities it might be impracticable to implement further changes before the effective date of IFRS 17 that derive from an agenda decision. This said, we suggest that the IFRS IC thoroughly discusses, and potentially clarifies, how the principle “sufficient time” to implement applies in the respective context. Further, we kindly ask the IFRS IC to carefully consider which steps it undertakes in responding to a submission that affects IFRS requirements right before initial application.

We would like to add more generally that IFRS IC deliberations on new or just amended IFRS requirements come along with an additional challenge: The agenda decisions do not only affect the crucial implementation period, but there is also only limited accounting practice yet (be it predominance or diversity) which can be considered and analysed. Therefore, we urge the IFRS IC to carefully consider the due process it undertakes in responding to those submissions



as it may have a significant impact for entities during the implementation period if accounting policies need to be changed.

In the specific case of IFRS 17 the IFRS IC due process might benefit, inter alia, from input from the Transition Resource Group (TRG) as one of the ways the IASB is supporting implementation of the new standard by providing a public forum for stakeholders to follow the discussion of questions raised on implementation.

If you would like to discuss our views further, please do not hesitate to contact Jan-Velten Große ([grosse@drsc.de](mailto:grosse@drsc.de)) or me.

Yours sincerely,

*Sven Morich*

Vice President



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May 20, 2022

Submitted electronically via [ifric@ifrs.org](mailto:ifric@ifrs.org)

International Accounting Standards Board  
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Dear IFRS Interpretations Committee members:

**Re: Tentative Agenda Decision – Special Purpose Acquisition Companies: Accounting for Warrants at Acquisition**

This letter is the response of the Canadian Accounting Standards Board (AcSB) to the IFRS Interpretation Committee's (IFRIC or Committee) Tentative Agenda Decision on Special Purpose Acquisition Companies (SPAC): Accounting for Warrants at Acquisition, issued in March 2022.

In formulating the views expressed in this letter, we considered input from our [IFRS® Discussion Group](#) (Group). The Group consists of members with a range of backgrounds and experience, including preparers, users and auditors of financial statements prepared in accordance with IFRS Standards.

We understand that the tentative agenda decision (TAD) reflects the Committee's discussion and conclusions related to the narrow fact pattern included in the TAD and we agree with the Committee's technical analysis of that issue. However, as explained in detail below, we are concerned that the TAD has broader implications, resulting in unintended consequences when applied to other transactions with similar characteristics. For example, we think that the fact pattern examined is not sufficiently different from several other types of transactions that occur in practice such as the acquisition of a group of assets that is not a SPAC and the issuance of warrants to key management personal. These examples are not specific to Canada and therefore may have a pervasive impact on global practice.

Due to the potential broader implications and the complexity of determining whether similar fact patterns represent transactions within the TADs intended scope, we think the IFRIC should not finalize this agenda decision. We disagree that the submission received by the Committee is sufficiently narrow in scope. As such, we think that the Committee should refer this issue to the International Accounting Standards Board (IASB) to assess whether additional standard setting is required. While we acknowledge the resource constraints the

IASB will face during its next five-year work plan, we think a standard-setting project (not a finalized agenda decision) is required to adequately address the issue. We also think that any standard-setting project should begin with extensive research on the scope of transactions impacted by the proposed guidance. Based on our experience and limited outreach, we think that the scope of transactions with similar characteristics to the specific fact pattern submitted extend well beyond SPAC transactions.

### **Examples of other scenarios with similar facts and circumstances**

#### *Acquisition of a group of assets that is not a SPAC*

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 *Share-based Payment* (IFRS 2) rather than splitting it between non-business portions that reside in IFRS 2 and other portions that reside in IAS 32 *Financial Instruments: Presentation* (IAS 32). We think that if the guidance in the TAD were applied to these transactions, that some warrants may have been classified as a liability in accordance with IAS 32.

#### *Warrants issued to key management personnel for cash proceeds*

It is common in the private equity industry to award key management personnel a variable number of shares in exchange for cash consideration, with the warrants being callable if the manager does not meet certain service conditions. Although this fact pattern is unrelated to SPAC acquisitions, we think that there are similarities in that warrants are issued by the entity in exchange for cash proceeds (i.e., outside of the scope of IFRS 2) and future services (akin to the listing service 'acquired' by the non-listed operating company in the submitted fact pattern) are received.

### **Further clarification and guidance**

Notwithstanding our comments above, if the Committee proceeds to finalize the TAD in its current form, we encourage the Committee to clarify certain aspects of the agenda decision. We think that providing clarity is useful to preparers to ensure the agenda decision is applied consistently to transactions within its scope.

#### *Clarify why a Reverse Takeover Transaction (RTO) is excluded from the TADs scope*

We observe that the RTO scenario that was analyzed in the [Staff Paper](#) discussed at the March 2022 IFRIC meeting was not included in the TAD. We think that stakeholders may interpret its exclusion to mean one of two things: (1) the TAD should be applied by analogy to these types of transactions; or (2) the TAD should not be applied by analogy to these types of transactions. For example, while SPAC acquisitions are uncommon in the Canadian jurisdiction, we note that a Capital Pool Company<sup>1</sup> (CPC) is a more commonly used alternative mechanism for private companies to raise capital and go public. The accounting treatment of transactions involving CPCs is to a large extent duplicative of the accounting followed in practice for RTO transactions. We think that it is unclear whether these types of transactions fall within or outside of the scope of the TAD. As such,

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<sup>1</sup> A Capital Pool Company is a listed company with experienced directors and capital, but no commercial operations at the time of the initial public offering. The directors of the CPC focus on acquiring an emerging company and, upon the completion of the acquisition, that emerging company has access to the capital and the listing prepared by the CPC.

we encourage the Committee to update the TAD to provide a clear explanation of whether its guidance is meant to be applied to RTOs or more broadly to similar types of transactions.

*Address the subsequent (i.e., post-acquisition) accounting requirements under the scenario where the warrants are part of the consideration for the acquisition of the SPAC*

We observe that the TAD does not provide guidance associated with the accounting for SPAC warrants that are not assumed by the accounting acquirer. We think that the TAD should include guidance addressing this outcome, particularly where the warrants issued are traded publicly and therefore not specifically identifiable. The initial and subsequent measurement of these instruments may be impacted dependent on whether it is within the scope of IFRS 2 or another standard. Therefore, we encourage the IFRIC to provide guidance addressing this outcome.

*Measurement of shares and warrants issued as part of the consideration transferred*

We note that the TAD suggests a relative standalone fair value approach to measure the liability and equity instruments issued in the transaction. That said, the definition of fair value contained in IFRS 2 is different than the definition of fair value provided in IFRS 9 *Financial Instruments* (IFRS 9) and IAS 32, which refers to IFRS 13 *Fair Value Measurement* (IFRS 13). We think that the TAD should explicitly acknowledge that the definitions of fair value under each standard differ. As a result, the relative fair value approach could result in a different accounting outcome (i.e., the allocation of the consideration transferred between equity and a financial liability may differ depending on the definition of fair value used). We think that to reduce this potential diversity in practice the TAD could explicitly require the use of one standard when a financial statement preparer is determining the fair value of the newly issued ordinary shares and warrants in exchange for the SPACs ordinary shares and the legal cancellation of the SPACs warrants.

We would be pleased to elaborate on our comments in more detail if you require. If so, please contact me or alternatively, Katharine Christopoulos, Director, Accounting Standards at +1 416 204-3270 (email [kchristopoulos@acsbcanada.ca](mailto:kchristopoulos@acsbcanada.ca)) or Matthew Bishop, Principal, Accounting Standards at +1 647 264-7070 (email [mbishop@acsbcanada.ca](mailto:mbishop@acsbcanada.ca)).

Yours truly,



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#### **About the Canadian Accounting Standards Board**

We are an independent body with the legal authority to establish accounting standards for use by all Canadian publicly accountable enterprises, private enterprises, not-for-profit organizations and pension plans in the private sector. We are comprised of a full-time Chair and volunteer members from a variety of backgrounds, including financial statement users, preparers, auditors and academics; a full-time staff complement supports our work.

### **Our standards**

We have adopted IFRS® Standards as issued by the IASB for publicly accountable enterprises. Canadian securities legislation permits the use of U.S. GAAP in place of IFRS Standards in certain circumstances. We support a shared goal among global standard setters of high-quality accounting standards that result in comparable financial reporting outcomes regardless of the GAAP framework applied.

We developed separate sets of accounting standards for private enterprises, not-for-profit organizations and pension plans. Pension plans are required to use the applicable set of standards. Private enterprises and not-for-profit organizations can elect to apply either the set of standards developed for them, or IFRS Standards as applied by publicly accountable enterprises.

### **Our role vis-à-vis IFRS Standards**

Our responsibility to establish Canadian GAAP necessitates an endorsement process for IFRS Standards. We evaluate and rely on the integrity of the IASB's due process as a whole, and monitor its application in practice. In addition, we perform our own due process activities for each new or amended IFRS Standard to ensure that the standard is appropriate for application in Canada. We reach out to Canadians on the IASB's proposals to understand and consider their views before deciding whether to endorse a final IFRS Standard. A final standard is available for use in Canada only after we have endorsed it as Canadian GAAP.

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### **About the IFRS® Discussion Group**

The IFRS Discussion Group (the Group) is an advisory committee of the Canadian Accounting Standards Board (AcSB) that provides a regular public forum to discuss issues arising in Canada from the application of IFRS Standards. The Group is made aware of such issues through its members, who have an in-depth knowledge of IFRS Standards, and our stakeholders, who can submit issues for consideration by the Group. Potential agenda items are assessed against a set of criteria including whether the issue is widespread (either within an industry or across various industries) in Canada, and whether there is divergent practice or the potential for divergent practice. The Group's discussion generally acts to raise awareness in order to help stakeholders understand the principles and requirements in IFRS Standards. However, at times, the Group may make a recommendation to the AcSB to refer a particular issue to the IASB or IFRS Interpretations Committee. The AcSB discusses the recommendation and decides on next steps.



23 May 2022

Mr. Bruce Mackenzie  
Chair  
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United Kingdom

Dear Mr. Mackenzie,

### **IFRS Interpretations Committee Tentative Agenda Decisions**

The Malaysian Accounting Standards Board (MASB) welcomes the opportunity to provide comment on the following Tentative Agenda Decisions:

- (a) Lessor Forgiveness of Lease Payments (IFRS 9 *Financial Instruments* and IFRS 16 *Leases*)
- (b) Special Purpose Acquisition Companies (SPAC): Accounting for Warrants at Acquisition
- (c) Special Purpose Acquisition Companies (SPAC): Classification of Public Shares as Financial Liabilities or Equity (IAS 32 *Financial Instruments: Presentation*)
- (d) Transfer of Insurance Coverage under a Group of Annuity Contracts (IFRS 17 *Insurance Contracts*)

We agree with the IFRS Interpretations Committee's reasons set out in the Tentative Agenda Decisions for not adding a standard-setting project to its work plan based on the specific fact patterns described in the Tentative Agenda Decisions.

If you need further clarification or have any queries regarding this letter, please contact the undersigned by email at [beeleng@masb.org.my](mailto:beeleng@masb.org.my) or at +603 2273 3100.

Thank you.

Yours sincerely,



**TAN BEE LENG**  
*Executive Director*

May 22, 2022

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**SOCPA Comments on *Tentative Agenda Decision, Special Purpose Acquisition Companies (SPAC): Accounting for Warrants at Acquisition***

**Dear Colleagues,**

The Saudi Organization for Chartered and Professional Accountants (SOCPA) appreciates the efforts of the IFRS Interpretations Committee (Committee) and welcomes the opportunity to comment on the *Tentative Agenda Decision, Special Purpose Acquisition Companies (SPAC): Accounting for Warrants at Acquisition*.

Overall, we support the IFRS IC's conclusion that the principles and requirements in IFRS Accounting Standards provide an adequate basis for an entity to determine – in the fact pattern (as described in the request) and variation discussed – how to account for warrants on acquiring a SPAC and consequently deciding not to add a standard-setting project to the work plan.

While supporting the IFRS IC's conclusion, SOCPA would like to highlight that:

The tentative agenda decision states that the entity decides on the basis of accounting for warrants based on its judgement. The entity in assessing whether it assumes the SPAC warrants as part of the acquisition considers the specific facts and circumstances of the transaction, including the terms and conditions of all agreements associated with the acquisition. Based on its judgement, the entity would then need to conclude that the terms and conditions are such that the SPAC warrants should be considered as part of the acquisition or part of the consideration paid for the SPAC.

SOCPA therefore suggests IFRS IC should provide additional detailed guidance (including examples if possible) on how entities should make this judgement in assessing the specific facts and circumstances of the transaction, including the terms and conditions of all agreements associated with the acquisition in order to determine if warrants are assumed as part of the acquisition or are part of the consideration paid as this would significantly influence the basis of accounting.

Please feel free to contact Dr. Abdulrahman Alrazeen at (razeena@socpa.org.sa) for any clarification or further information.

**Sincerely,**



**Dr. Ahmad Almeghames**  
Chief Executive Officer



IFRS Foundation

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United Kingdom

23 May 2022

Dear Sir/Madam,

**Chartered Accountants Academy (CAA) and Training and Advisory Services (TAS) Submission -  
Commentary on Exposure Draft – Special Purpose Acquisition Companies (SPAC): Accounting for  
Warrants at Acquisition**

In response to your request for comments on Exposure Draft – Special Purpose Acquisition Companies (SPAC): Accounting for Warrants at Acquisition, attached is the comment letter prepared by Chartered Accountants Academy and Training & Advisory Services. The comment letter is a result of deliberations of members of CAA and TAS which comprises chartered accountants who have experience in auditing, IFRS and academics.

We are grateful for the opportunity to provide our comments on this project.

Please do not hesitate to contact us should you wish to discuss any of our comments.

Yours faithfully,

Nyasha Chakuma

Project Director

Webster Sigauke

Project Director

Project team : Christabel Sibanda

: Chrispen Tazvitya

Our comments are as follows:

The opening of the Tentative Agenda Decision gives more clarity and better guidance on accounting for warrants on acquiring the SPAC. Our responses to the specific matters for comment are as below:

## Specific Matters for comment

Who is the acquirer and is it a business?

Acquirer is the entity that obtains control of the acquiree according to definition in appendix A of IFRS 3. An investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee – IFRS 3 par 6. Control of any entity can be assessed either using one of the two methods, (majority shareholding with voting rights) or using business combination method (if acquires individual assets and liabilities). Using majority shareholding method, because of nature of SPACs, the entity might have control over SPACs as it has rights and has ability to affect those returns through determining number of shares to be issued to the public. After having control of the SPAC, entity will have control over the SPAC. The nature of SPACs does not require it to have physical asset. For the acquirer to be said has acquired a business that has to be consolidated as per IFRS 3, it has to meet the definition of business.

A business consists of inputs and process applied to those inputs that have the ability to contribute to the creation of outputs -IFRS 3 par B7.

Inputs is any economic resource that creates outputs or has ability to contribute to the creation of outputs when one or more processes are applied to it – par B7(a). The input to the business are intellectual properties which give ability to obtain access to necessary materials (stock exchange platform) in the form of name that is listed on stock exchange. Intellectual property was acquired when it was registered as a shell company.

Process is any system, standard, protocol, convention, or rule that when applied to any inputs, creates outputs or has ability to contribute to the creation of the output -par B7 (b). The process can be determined as it being able to trade on stock exchange. Because of the nature of SPAC, it has no employee as founders or owners of SPAC does not offering either employment or management service after incorporation but only facilitate the acquisition of SPAC by private entity (acquirer). Although it might be difficult to regard owner as employees who processes input (intellectual property) into trading of shares, the services rendered on incorporation are enough to have an output. Moreso it can be argued that the process might be performed by the stock market on behalf the SPAC as the market is the one which manages entities listed on the stock market. This means that processes are being done indirectly for SPAC to be acquired therefore, there are rules which are applicable to intellectual process (warrants) for creation of output.

Outputs are results of inputs and processes applied to those inputs that provide goods or services to customers, generate investment income or income from ordinary activities. Ordinary activities of SPAC are to give entities access to public market without going through registration process to trade on stock market for an agreed fee. The output will be consideration paid for rights/ warrants given to the

entity acquired it for it to trade on Stock to public and able to raise fund for merger and acquisition for the private entity.

### **Specific Matter for Comment 1 – Response**

#### **Do SPACs have Assets**

An intangible asset is an identifiable non-monetary asset without physical substance IAS 38 paragraph 8. We then need to assess if warrants and stock exchange listing services meet the definition of intangible assets. SPAC warrants can be sold to the entity, licensed, or exchanged with share of the entity. These warrants are as a result of legal rights through engaging lawyers and accountants in formally registering the company (SPAC). Founders or owners of SPAC have control over these warrants as they can obtain the future economic benefit through the consideration that will be paid by the entity for SPAC and shareholders can restrict access of other entities to those benefits, therefore, warrants and stock exchange listing services are intangible assets as per IAS 38.

### **Specific Matter for Comment 3**

#### **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...’

As explained above the nature and purpose of SPAC doesn’t allow it to have physical asset but their asset comes in the form of intellectual property. Therefore IFRS 3 can still be applicable to SPAC as it is a business on its own using the original intention of forming that type of the business. The business model of the entity might determine the nature and type of inputs needed to process the output (ability to be trade share to public.

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23 May 2022

Dear IFRS Interpretations Committee members,

**Invitation to comment - Tentative Agenda Decision (TAD): Special Purpose Acquisition Companies (SPAC): Accounting for Warrants at Acquisition**

Ernst & Young Global Limited, the central coordinating entity of the global EY organisation, welcomes the opportunity to offer its views on the above tentative agenda decision of the IFRS Interpretations Committee (the Committee) published in the March 2022 *IFRIC Update*.

The Committee discussed a question about how the entity accounts for warrants on acquiring the special purpose acquisition company (SPAC). We note that the Tentative Agenda Decision (TAD) discusses a variety of considerations related to the SPAC acquisition, in addition to the question on how to account for warrants specifically.

We agree that in determining the accounting for a SPAC acquisition, an entity first identifies which party is the acquirer, and in the fact pattern discussed in the TAD, the entity is the acquirer. We also agree with the Committee's observation that in the fact pattern discussed, the acquisition of the SPAC is the acquisition of an asset or 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. In addition, we agree with the Committee's conclusion relating to the acquisition of a stock exchange listing and the related application of paragraphs 2 and 13A of IFRS 2 *Share-based Payment*.

While we also agree that IFRS 2 applies to instruments that are issued in exchange for goods or services, which requires an assessment of whether warrants issued are part of consideration given in exchange for the listing service, we note that the submission raises a number of complex issues for which the TAD observes that no IFRS Accounting Standard specifically applies. While we would not necessarily disagree with the analysis prepared by the Committee, we do question whether this would be the only way of analysing the fact pattern. We would also observe that the questions raised (such as the allocation of instruments issued to IFRS 2 versus IAS 32 *Financial Instruments: Presentation* transactions and their subsequent accounting) are not limited to transactions involving SPACs, potentially leading to unintended consequences. Therefore, we would respectfully suggest that the Committee reconsider their tentative conclusion and consider referring this issue to the International

Accounting Standards Board in order to assess whether additional standard setting would be required, rather than publishing an Agenda Decision.

The following points represent the concerns about the detailed content of the TAD that we believe require further clarification.

### **Assessment of whether the entity assumes the SPAC warrants as part of the acquisition/ Accounting for the SPAC warrants assumed as part of the acquisition**

The TAD is based on an approach which requires the acquirer to first determine whether the SPAC warrants are assumed as part of the acquisition and - if so - whether the replacement of these warrants should be accounted for as part of the acquisition or separately from it. If the SPAC warrants are not assumed, the entity issues both ordinary shares and warrants to acquire the SPAC and a listing service (so that new warrants issued would be - at least partially - issued in exchange for a service). If the SPAC warrants are assumed, their classification as financial liabilities or equity instruments would follow the requirements of IAS 32. However, the replacement of these warrants could still be considered as part of the acquisition, thereby raising the same classification questions for new warrants issued in exchange for the SPAC warrants as a means to transfer additional consideration for the acquisition of the SPAC (for any incremental value of the new warrants).

We agree with the Committee's observation that, as an initial step, one would assess whether the entity assumes the SPAC warrants as part of the acquisition, and in doing so, it would be important to consider the specific facts and circumstances of the transaction, including the terms and conditions of all agreements. While the first step seems essential in the analysis, we believe the assessment of whether the entity assumes the SPAC warrants is particularly challenging when the exchange of the SPAC warrants and of the SPAC shares are negotiated at the same time with presumably the same parties (who have both shares and warrants) and when warrants and shares are exchanged concurrently.

The TAD requires - in assessing whether warrants are assumed - consideration of the legal structure of the transaction and the terms and conditions of the SPAC warrants and the warrants it issues in the transaction.

The reference to the legal structure suggests that the TAD also partially covers transactions different from the one described in the submission (such as when the SPAC legally acquires a non-listed operating company and the warrants are not exchanged), which may create confusion.

In addition, we recommend that the Committee provides more guidance and clarifies what factors would be relevant in considering the "terms and conditions" of the warrants when initially assessing whether the warrants are assumed. The TAD does not elaborate further on this point. However, we note that paragraph 48 of the Agenda Paper (which relates to the analysis for the replacement of warrants when the SPAC warrants are considered to be

assumed) refers to consideration of the applicability of paragraph B50 of IFRS 3 *Business Combinations* and provides as an example the consideration of whether the terms of the new warrants issued differ from those of the SPAC warrants and whether there is a transfer of value in the replacement. If the SPAC warrants and the new warrants issued are different and there is a transfer of value in the replacement, it is unclear whether that would indicate that the SPAC warrants are assumed and exchanged as part of the acquisition or whether that would indicate that they are not assumed and new warrants are issued as consideration for the acquisition.

It is our understanding that if they are not assumed, then new warrants issued would fully be viewed as consideration for the acquisition.

However, if they are instead assumed, is it only the incremental value transferred through the replacement that would be additional consideration for the acquisition? Also, whether and to what extent this affects the classification of new warrants is unclear. For example, it is unclear whether the replacement warrants need to be split between the value of the replaced warrants and the incremental value transferred and the latter split again between the portion considered issued for cash and the portion considered issued for the listing service in order to determine which warrants are in scope of IFRS 2 versus IAS 32. We believe further clarification on this is required in the TAD.

Alternatively, where incremental value is transferred in the replacement, does the TAD mean all of the replacement warrants are consideration for the acquisition? That is to say, in such circumstances, are the exchange/replacement of the SPAC warrants and the acquisition considered part of a single transaction rather than two separate transactions? A single transaction perspective may be consistent with the overall substance of the transaction. If new warrants issued are more valuable than the SPAC warrants replaced, the overall objective of exchanging the SPAC warrants and the SPAC shares would presumably still be the same (i.e., to transfer consideration in exchange for the SPAC assets and the listing status).

### **Which IFRS Accounting Standard applies to the instruments issued**

We note that the Committee observes that IAS 32 applies to all financial instruments with some exceptions (paragraph 4 of IAS 32), and IFRS 2 applies to 'share based payment transactions in which an entity acquires or receives goods or services' (paragraph 5 of IFRS 2). We agree that IFRS 2 does not apply to a transaction which solely issues shares in exchange for cash with the same value (without receiving goods or services).

The TAD introduces an "allocation" approach to the share and warrant consideration issued between IAS 32 and IFRS 2. Also, although the TAD suggests an allocation based on relative fair value of the instruments issued as one approach that may be acceptable, it acknowledges other allocation methods could be acceptable. However, in a single transaction that includes the acquisition of goods and services as well as some financial assets in exchange for a share-



based payment, it is not clear that IFRS 2 requires that transaction to be split into one portion that is in scope of IFRS 2 and another portion that is in scope of IAS 32. Rather it is still a single transaction that results in the entity acquiring goods and services (as well as some financial assets) and, arguably, IFRS 2 can still be read to apply to the whole transaction.

The approach in the TAD leads to certain difficulties. In a single transaction where both cash and goods or services are received, an approach which allocates warrants partially to an IAS 32 transaction and partially to an IFRS 2 transaction may result in classifying the same instruments with exactly the same terms partially as equity and partially as liability instruments (for example, if the warrants do not meet the fixed-for-fixed criteria in IAS 32) given the differences between IAS 32 and IFRS 2 in how instruments are classified.

We are concerned with the potential consequences of the approach, as well as the practical difficulties that may arise in applying this approach.

For instance, the TAD does not address any of the resulting practical difficulties that may arise with subsequent accounting for the new warrants issued and allocated to the acquisition of cash (accounted for under IAS 32) and to the stock exchange listing service (accounted for under IFRS 2). As warrants are exercised over time and where the terms and conditions of the exercised warrants and those of non-exercised warrants are the same, we believe it will be difficult for the entity to reliably distinguish which warrants are exercised.

This allocation approach could also have unintended consequences and raise new questions or diversity in accounting for other transactions in which part of the transaction contains the receipt of cash:

- When accounting for the acquisition of a group of assets that does not constitute a business (other than a SPAC), the entity identifies and recognises the individual identifiable assets acquired and liabilities assumed, and the cost of the group must be allocated to the individual identifiable assets and liabilities on the basis of their relative fair values at the date of purchase in accordance with paragraph 2(b) of IFRS 3. We believe that entities apply judgement to determine the scoping and generally, they apply IFRS 2 to the entire arrangement if appropriate, rather than splitting an acquisition of a non-business into a portion that resides in IFRS 2 and a portion that resides outside IFRS 2. In acquisitions that do not qualify as business combinations effected through issuing equity instruments, it would be very common for there to be a mix of assets acquired, some of which could be cash and financial assets or financial liabilities (e.g., receivables, payables, etc.). We do not believe that there is consistent practice today to account for the acquisition of the financial assets separately from the acquisition of the non-financial assets. When the instruments that have been issued could give rise to a different classification between equity and a liability based on whether IAS 32 and IFRS 2 is applied, the TAD may result in a change in practice for some.

- If only one vested warrant or preferred share convertible into a variable number of shares is issued in exchange for cash and services, an allocation on a single instrument would not be feasible.
- It is also common, for example, in the private equity industry, to award as part of a compensation package to key management, unvested warrants giving them a right to a variable number of shares in exchange for cash consideration close to their fair value. How would the existence of vesting conditions (e.g., when warrants are callable at the lower of cash received and fair value if a service condition is not met) affect the assessment? Generally, we believe it has been common practice to consider the transaction as being within the scope of IFRS 2, even though the service component is not - at first sight- the most significant component between cash and services received. Even if the cash paid is at risk (as the upfront cash payment is close to fair value and the employee is exposed to downward risk regardless of whether services are rendered or not), the existence of vesting conditions may still demonstrate that retaining the employees is the main purpose of the transaction. One might question whether the TAD may have applicability in this scenario, given that there is a warrant being issued by the entity for cash proceeds as well as services to be received in the future.

We query whether an allocation approach would be seen as the only acceptable alternative, or whether there can be other accounting policy choices or other allocation approaches that may be supportable and which would reduce the practical challenges that may result from “splitting” the consideration issued. For example, the entity could apply a classification method based on the predominant component that it acquired or assumed, or it could base the analysis on whether the instruments issued have features that would not be expected in a “normal” equity or financing transaction. In this case, the entity would apply IFRS 2 or IAS 32 to the entire transaction depending on the predominant component that it received. In our view, this could reduce the complexities in subsequent accounting treatment.

### **Other comments**

While we acknowledge the fact that the legal structure, and, therefore, the fact pattern submitted to the IFRS IC was different from the structure subject to the March 2013 Agenda Decision (which related to a SPAC acquisition that is structured as a reverse acquisition or reverse takeover (RTO)), and the IFRS IC generally does not go beyond the question raised, we believe it would be helpful to also consider this variation of the fact pattern in the current Agenda Decision in order to complement the March 2013 Agenda Decision.

We also believe that a more fulsome analysis and discussion would be useful than the analysis that was included in Appendix D of the Agenda Paper. Appendix D concluded that the entity assumes the SPAC warrants as part of the acquisition (and, therefore, recognises any liability for those warrants under IAS 32) and does not consider the SPAC warrants assumed to be part of deemed consideration transferred when applying paragraph B20 of IFRS 3, without providing further explanation. As the RTO scenario and analysis in Appendix D of the Agenda

Paper was not ultimately included in the TAD issued by the Committee, to the extent there is diversity in practice today, that diversity might continue.

Should you wish to discuss the contents of this letter with us, please contact Leo van der Tas at the above address or on +44 [0]20 7951 3152.

Yours faithfully

*Ernst + Young Global Limited*

Date: May 23, 2022

Mr. Bruce Mackenzie,  
Chair, IFRS Interpretations Committee,  
IFRS Foundation  
Columbus Building,  
7 Westferry Circus, Canary Wharf,  
London E14 4HD,  
United Kingdom

Dear Bruce,

**Subject: Comments of the Institute of Chartered Accountants of India on Tentative Agenda Decision (TAD) issued by IFRS Interpretations Committee (IFRS IC) on Special Purpose Acquisition Companies (SPAC): Accounting for Warrants at Acquisition**

The Accounting Standards Board (ASB) of the Institute of Chartered Accountants of India (the ICAI) welcomes the opportunity to comment on above referred Tentative Agenda Decision of IFRS Interpretations Committee.

In this regard, we agree with the analysis in the tentative agenda decision. With regard to the stock exchange listing benefit getting acquired, we feel that it is a benefit which is getting consumed immediately by acquirer. However, it may not meet the definition of intangible asset. We agree with the conclusion in the TAD 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 given fact pattern.

With kind regards,

CA. Pramod Jain  
Chairman,  
Accounting Standards Board  
Institute of Chartered Accountants of India



IFRS Interpretations Committee  
Columbus Building  
7 Westferry Circus  
Canary Wharf  
London E14 4HD  
United Kingdom

23 May 2022

Dear Sir/Madam

**RE: Tentative agenda decision - Special Purpose Acquisition Companies (SPAC):  
Accounting for warrants at acquisition**

We are responding to your invitation to comment on the tentative agenda decision (TAD) - Special Purpose Acquisition Companies (SPAC): Accounting for Warrants at Acquisition, published in March 2022, on behalf of PricewaterhouseCoopers.

Following consultation with members of the PricewaterhouseCoopers network of firms, this response summarises the views of member firms who contributed to our consultation during the comment letter period. 'PricewaterhouseCoopers' refers to the network of member firms of PricewaterhouseCoopers International Limited, each of which is a separate and independent legal entity.

We understand the principle established in the TAD by answering the question, *Does the entity assume the SPAC warrants as part of the acquisition?* is that the entity needs to consider whether a) it in-substance assumes the SPAC warrants in advance of the acquisition and then replaces those warrants with NewCo warrants or b) NewCo warrants are part of the consideration transferred and NewCo does not assume the SPAC warrants as part of the acquisition (i.e., the SPAC warrants are not part of the net assets acquired). We agree that an entity will need to consider the specific facts and circumstances of the transaction in making its judgement on whether it in-substance assumes the SPAC warrants or not.

We, however, do not agree that the only alternative to account for warrants which are not part of the net assets acquired (and are therefore considered to form part of the consideration paid to acquire the cash and listing services) is to account for them partly in the scope of IFRS 2 and partly in the scope IAS 32. We are concerned that this conclusion is a) not clearly required by existing guidance; b) inconsistent with guidance issued in previous agenda decisions; and c) inconsistent with how the unit of account is typically applied in IFRS 2 transactions. We expand

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on these three points below.

No IFRS accounting standard specifically requires an allocation between IFRS 2 and IAS 32 to be made and therefore an entity should apply paragraphs 10 - 11 of IAS 8 in developing its own policy. 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. Such an interpretation could then also address the further complication of *how* practically the allocation could be achieved when it is not possible to subsequently track which warrants/equity (or portion thereof) related to the acquisition of the cash and which related to obtaining the stock exchange listing - specifically, how would an entity determine whether a particular warrant relates to the acquisition of cash (in the scope of IAS 32) or the acquisition of the stock exchange listing (in the scope of IFRS 2) when the warrant is exercised.

Furthermore, we think that the TAD's conclusion requiring NewCo warrants (and shares) issued as consideration for the acquisition of a SPAC to be accounted for in the scope of both IFRS 2 and IAS 32 is inconsistent with guidance from the March 2013 agenda decision on accounting for reverse acquisitions that do not constitute a business. While we acknowledge that paragraphs 56 to 58 of Agenda Paper 6 consider the consistency of the TAD with the March 2013 agenda decision, it appears that the Committee has not fully considered consistency in all areas, as set out below:

- Determination that entire transaction is in the scope of IFRS 2: The March 2013 agenda decision sets out 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”*. The agenda decision clearly sets out that the entire transaction is the scope of IFRS 2 and the current view in the TAD to account for the transaction only partly in the scope of IFRS 2 contradicts this published guidance.
- Determination that no portion of the expense relates to the cost of raising capital: The March 2013 agenda decision sets out the principle 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 a payment for service of a stock exchange listing, and that **no amount should be considered a cost of raising capital**”* [Emphasis added]. If the TAD concludes that the warrants (and shares) should be accounted for both in the scope of IAS 32 and IFRS 2, it follows that the portion of the warrants (and shares) considered to be in the scope of IAS 32 to acquire the cash would relate to the raising of capital. The TAD therefore contradicts the 2013 Agenda decision, because those warrants (and shares) issued to acquire cash have been issued at a discount and that discount is a cost of raising capital.

Considering the guidance in IFRS 2 paragraph 3A, IFRS 2 applies to any transaction in which an entity receives goods or services in a share-based payment arrangement. Although the term 'transaction' has not been defined in IFRS 2, the scope does not consider the concept that IFRS 2

may only apply to a part of a transaction. It is our view in forming an appropriate accounting policy that a transaction that meets the definition of a share-based payment arrangement can be accounted for, in its entirety, in the scope of IFRS 2. This view is also consistent with the current accounting treatment of instruments in which an upfront cash payment is received (i.e., where an issuer of equity instruments receives both cash and services). We recognise that the examples we have included below may not be pervasive but have included them to demonstrate that the agenda decision, as it is currently drafted, could have unintended consequences on the accounting treatment of other arrangements. In all these examples, the instruments are accounted for in their entirety in IFRS 2 on initial recognition.

- Share option awards granted to employees for services: the entity will receive both cash, in the form of the strike price, and future services from the employee. The cash received from employees is not separated from the award itself; instead, the entire award is accounted for in the scope of IFRS 2.
- Deposit paid by employees on share awards: employee incentive arrangements which require employees to make an upfront payment for the share awards which entitle them to either receive shares on vesting or the lower of the upfront payment and the market value of the shares if they leave employment before vesting (i.e., are a bad leaver). These arrangements are typically accounted for as arrangements wholly within the scope of IFRS 2. The upfront payment is accounted for based on the principles in IFRS 2 and is not bifurcated and accounted for in a different standard, e.g., IAS 32.
- Employee share options denominated in the local currency of the employee which is a foreign currency for the reporting entity: the foreign currency is not considered to be a feature in the scope of IAS 32 or IFRS 9 for the cash portion of the strike price or the award as a whole. The foreign currency feature is deemed to be part of the IFRS 2 arrangement.
- Warrants issued to an underwriter as compensation for its services in a unit offering with a foreign currency exercise price that are indistinguishable from warrants simultaneously issued to investors: these warrants issued to the underwriter are initially accounted for in their entirety in IFRS 2 as a share-based payment for services provided. The foreign currency is not considered to be a feature in the scope of IAS 32 or IFRS 9 for the cash portion of the strike price of the award provided to the underwriter. Subsequently the warrants issued to underwriters are typically accounted for under IAS 32 in their entirety because they are indistinguishable from public warrants.

In the above examples, similar to the submitted fact pattern, the entity is receiving both cash and services. In these circumstances, it is consistent market practice to account for the entire arrangement on initial recognition by applying IFRS 2. We are not clear whether the TAD, if finalised in its current form, would suggest for the above share-based payment transactions that an allocation of a component of the transaction to financial instrument guidance would also be required.

We therefore recommend that the Committee update the agenda decision to remove the conclusion that an entity is required to allocate the consideration paid for the acquisition of a SPAC between that paid for the listing services and that paid for the cash, if the SPAC warrants

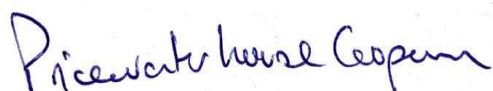
are not part of the net assets acquired. For these warrants, we believe that entities should develop their own policy on how warrants are accounted for on initial recognition - either entirely in the scope of IFRS 2 or in the scope of both IFRS 2 and IAS 32 on initial recognition. For NewCo warrants, accounted for in the scope of IFRS 2 on initial recognition, the NewCo would then need to consider whether the warrants should be accounted for subsequently applying IFRS 2 or IAS 32 (as envisaged in question two of the submission). We do not believe that the second question to the submission has been adequately considered in the TAD and recommend that the agenda decision specifically addresses this question.

In addition to our recommendations above, we found the TAD complex, long and difficult to read. We suggest that the following points are considered before finalising the agenda decision:

- If the committee continues to move forward with the agenda decision as drafted, we recommend that the overall structure is amended to include two clear sections which separately consider the accounting where an entity assumes the SPAC warrants as part of the acquisition and the accounting where the SPAC warrants are not part of the net assets acquired. We also recommend that in addition to simplifying the wording a decision tree similar to the one included as appendix E to the agenda paper is included as part of the agenda decision.
- There are a number of topics discussed in the TAD that have been concluded on in previous agenda decisions. We recommend that the TAD is streamlined to only focus on the questions raised in the submission without revisiting topics previously concluded on. The topics previously considered include identification of the acquirer and whether the entity acquires a stock exchange listing service.
- The TAD refers to warrants in several places. We recommend that the agenda decision clearly identifies the warrants as either SPAC warrants (founder and public) or NewCo warrants.

If you have any questions related to this letter, please contact Henry Daubeney ([henry.daubeney@pwc.com](mailto:henry.daubeney@pwc.com)) or Paul Shepherd ([paul.a.shepherd@pwc.com](mailto:paul.a.shepherd@pwc.com)).

Yours faithfully,



Henry Daubeney  
Partner, Global Chief Accountant and Head of Reporting



23 May 2022

Bruce Mackenzie  
Chair  
IFRS Interpretations Committee  
Columbus Building  
7 Westferry Circus  
Canary Wharf  
London  
United Kingdom

Dear Mr Mackenzie

## **Tentative agenda decision – Special Purpose Acquisition Companies (SPAC): Accounting for Warrants at Acquisition**

Deloitte Touche Tohmatsu Limited is pleased to respond to the IFRS Interpretations Committee's publication in the March 2022 IFRIC Update of the tentative agenda decision (TAD) not to take onto the Committee's agenda the request for clarification on how an entity accounts for warrants as part of the acquisition of a special purpose acquisition company (SPAC).

We agree with the IFRS Interpretations Committee's decision not to add this item onto its agenda. However, we believe that some aspects of the analysis may require further consideration before the agenda decision is finalised.

In particular, we have concerns with the analysis presented under "Which IFRS Accounting Standard applies to the instruments issued?" which concludes that the transaction is partly in the scope of IFRS 2 and partly in the scope of IAS 32. 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).

We also note that this analysis appears inconsistent with the conclusion reached in the IFRS Interpretations Committee's decision in March 2013 where it is clear that IFRS 2 applies to the transaction in its entirety, regardless of the level of monetary or non-monetary assets in the acquiree. We acknowledge that the fact pattern in the March 2013 agenda decision did not involve the issuance of different types of instruments as part of the acquisition. However we do not believe that this is a relevant consideration in determining whether the transaction is in the scope of IFRS 2 or IAS 32. The scope applicable to the transaction appears to be determined by reference to the nature of what is acquired in exchange for the issuance of equity instruments of the acquirer.

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We believe that this apparent contradiction should be addressed (i.e. does the level of monetary assets, in particular cash and other financial assets, matter in assessing whether a transaction is in the scope of IFRS 2) before the TAD is finalised.

We note that this same section “Which IFRS Accounting Standard applies to the instruments issued?” also indicates “[a]n accounting policy that results in allocating all the warrants issued to the acquisition of the stock exchange listing service solely to avoid the warrants being classified as financial liabilities applying IAS 32 would not meet this requirement”. This sentence does not appear to highlight a principle in IFRS Accounting Standards, but rather appears aimed at addressing the application of potentially abusive accounting policies to allocate the instruments to the components of the transaction. We do not believe that such a sentence is necessary or appropriate. The principle in IAS 8 that the entity’s accounting policy must result in information that is relevant and reliable is sufficiently clear to address the situation.

The subsection “Does the entity assume the SPAC warrants as part of the acquisition?” appears to play an important role in the conclusion that the entity is required to allocate the instruments issued to the net assets acquired and to the services. We draw this conclusion from the fact that the subsection “Which instruments were issued for the SPAC’s net assets, and which were issued for the service” starts by indicating “[i]f the entity concludes that the fact and circumstances are such that it does not assume the SPAC warrants as part of the acquisition...”. However, it is unclear whether the fact that the SPAC warrants are not assumed as part the acquisition affects

- The need for an allocation of the consideration transferred, i.e. if instead the SPAC warrants were assumed as part of the acquisition (such as the net assets of the SPAC and the listing service were obtained in exchange for the issuance of ordinary shares only) no allocation would be necessary, and the transaction would be entirely in the scope of IFRS 2; or
- The components of the transaction to which the consideration issued is allocated.

We suggest that this be clarified. Further, if indeed the analysis of whether the entity has assumed or not the SPAC warrants is important to the rest of the analysis, it would be appropriate to provide stakeholders with relevant indications of how different facts and circumstances may result in a different conclusion.

Finally, we suggest that the TAD could be simplified by eliminating the analysis of issues that appear predetermined by the fact pattern. In particular,

- The section “Who is the acquirer?” does not appear to provide helpful guidance since the conclusion that IFRS 3 does not apply is identified in the fact pattern. The fact that the identification of the acquirer (and of the acquiree) is a critical element in the analysis could be stated in a straight-forward way.
- Similarly, the section “Which IFRS Accounting Standard applies to the SPAC acquisition?” simply reiterates the conclusion in the fact pattern that IFRS 3 does not apply and does not provide any insights on how to determine which IFRS Accounting Standard in fact applies.

If you have any questions concerning our comments, please contact Veronica Poole in London at +44 (0) 20 7007 0884.

Yours sincerely

A handwritten signature in grey ink, appearing to read 'V. Poole', with a stylized flourish at the end.

**Veronica Poole**  
Global IFRS and Corporate Reporting Leader

Mr Bruce Mackenzie

**IFRS Interpretations Committee**

*Columbus Building,  
7 Westferry Circus, Canary Wharf  
London E14 4HD  
United Kingdom*

La Défense, 23 May 2022

**Tentative Agenda Decisions – IFRIC Update March 2022**

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

Dear Bruce,

MAZARS is pleased to comment on the abovementioned IFRS Interpretations Committee Tentative Agenda Decision, published in the March 2022 IFRIC Update.

We do not think the Committee should finalize the Tentative Agenda Decision as it is currently drafted, for the following reasons:

- 1- We question the usefulness of an agenda decision that contemplates a transaction that is usually not structured in the way it is described in the fact pattern. In most of the de-SPAC transactions, the SPAC is the legal acquirer in a reverse acquisition and the instruments (shares and warrants) are deemed issued rather than issued. We believe that the Committee should extend the scope of the agenda decision to that more common structuring of de-SPAC transactions,
- 2- We believe there are errors in the way the reasoning is structured to reach the Committee's conclusion, and

- 3- The Committee's conclusion would lead to the accounting for one issued warrant, which should be considered as a single unit of account, partially according to IAS 32 and partially according to IFRS 2, which would lead to a split accounting of the unit of account, with a possible separate presentation in equity and liability, with differences in the accounting for subsequent measurement (no remeasurement of the equity part and remeasurement through P&L of the liability part). We do not believe this outcome is relevant and question the usefulness of the information provided.

The appendix provides our detailed analysis of the TAD.

Should you have any questions regarding our comments on the tentative agenda decisions, please do not hesitate to contact Edouard Fossat (+33 1 49 97 65 92).

Yours sincerely,



Michel Barbet-Massin

*Financial Reporting Technical Support*



Edouard Fossat

## **Appendix: detailed analysis**

### ***Fact pattern***

The fact pattern described in the submission is that of a direct acquisition of the SPAC by a holding company paid through the issuance of new shares and warrants of the holding company, where the holding company is both the legal and the accounting acquirer.

In this respect, we note that, based on our experience, the most frequent observed set-up for such transactions is that the SPAC is the legal acquirer and it issues shares to the shareholders of the operating entity in an acquisition transaction where, following the reverse acquisition guidance in IFRS 3, the operating entity is identified as the accounting acquirer.

Therefore, we believe it useful that the Committee extends its analysis to the most common fact pattern observed in de-spac transactions, as originally proposed in the staff paper, and explicitly refers to the March 2013 IFRIC agenda decision on “Accounting for reverse acquisition that to do not constitute a business”. This is because this agenda decision is relevant as well for the application of IFRS 3 reverse acquisition guidance to the acquisition of a group of assets by analogy, and for the application of IFRS 2 to account for the listing service received by the non-listed operating entity from the already listed SPAC. Should the Committee agree to extend the scope of the decision to reverse acquisitions, we note that the latter are economically similar to the submitted fact pattern, which means that the operating entity would be deemed to have issued not only new ordinary shares (“deemed shares”), but also new warrants (“deemed warrants”).

We also note that the Tentative agenda decision does not explain what is at stake in the submission. We think that it might be useful to add, as recalled in the staff paper:

- that the request stems from the fact that IFRS 2 and IAS 32 include different classification requirements for financial instruments within their scope (e.g., a financial instrument that fails to meet the ‘fixed for fixed’ criterion for classification as an equity instrument according to IAS 32 may still be accounted for as an equity-settled instrument according to IFRS 2),
- that the new warrants issued by the entity to the founder shareholders and public investors of the SPAC in exchange for the SPAC warrants would be classified as equity-settled if they were to be accounted for according to IFRS 2, although they meet the definition of a financial liability according to IAS 32.

### ***Who is the acquirer and which IFRS Accounting Standard applies to the SPAC acquisition?***

We agree with the developments in the Tentative Agenda Decision that one would conclude the entity is the acquirer on the basis of paragraphs B13-B18 of IFRS 3, and that the transaction is not a business combination because the SPAC, which is the acquiree in the transaction, does not constitute a business.

***How to account for the warrants issued by the entity?***

While we globally agree with the path followed by the Committee in conducting its analysis, we have several reservations regarding how it is drafted, and the overall conclusion reached by the Committee. Our reservations are the following:

1- How to organise the different steps of the reasoning?

We understand that the agenda decision considers the following steps for its reasoning:

- Step 1: determine whether the entity assumes the SPAC warrants as part of the acquisition, by considering the specific facts and circumstances of the transaction.
- Step 2: determine whether the SPAC warrants are equity or liability instruments according to IAS 32 requirements.
- Step 3: determine how to account for the replacement of the SPAC warrants, using the requirements in paragraph B50 of IFRS 3 on determining what is part of the business combination transaction.
- Step 4: identify that the entity acquires a stock exchange listing service alongside with the net assets of the SPAC.
- Step 5: allocate the instruments issued by the entity between the acquisition of the net assets of the SPAC and the acquisition of the stock-exchange listing service.
- Step 6: account for the shares and the warrants issued according to IAS 32 and/or IFRS 2 according to the allocation in Step 5.

We do not think that all the steps above are necessary relevant or make relevant references to IFRS requirements. Our comments are as follows:

- Step 1: we consider that this 1<sup>st</sup> step should make reference to paragraph B50 of IFRS 3 (instead of Step 3) in order to determine whether one should consider the SPAC warrants as existing obligations of the SPAC at the date of acquisition, or whether the SPAC warrants have been issued in view of the future acquisition of the SPAC and could be considered as a separate transaction initiated by the entity.  
In practice, we have only met the first situation, because in terms of timing, the SPAC warrants are usually issued at the time of the IPO, and not in contemplation of the future acquisition. However, we acknowledge that the second situation might also exist, for example when the SPAC founders already have in mind a potential future target when they proceed to their IPO and are already discussing with the shareholders of this future target.
- Step 2: we agree that IAS 32 is the relevant standard to apply to the SPAC warrants because the SPAC's founders and public investors both hold the warrants solely in their capacity as owners of the SPAC, and not anymore, as regards the founders, as consideration for services provided by them at the time of the SPAC IPO. This step will determine, provided that the SPAC warrants are assumed as part of the acquisition, whether they reduce the net assets acquired, or are equity instruments of the SPAC (and non-controlling interests after the acquisition).
- Step 3: should be deleted.
- Step 4: identify that the entity acquires a stock exchange listing service alongside with the net assets of the SPAC.

- Step 5: allocate the instruments issued by the entity between the acquisition of the net assets of the SPAC, the replacement of the SPAC warrants and the acquisition of the stock-exchange listing service. We believe that this allocation should be made according to the following guidance (if the SPAC warrants are assumed as part of the acquisition):
  - If the SPAC warrants are equity instruments of the SPAC, the entity has issued shares and warrants to acquire 100% of the present and future interests in the SPAC. Therefore, all these instruments are part of the acquisition price for both the net assets and the listing service and should be allocated between them on a basis that is relevant (the basis of the relative fair value of the instruments issued, as suggested in the Tentative Agenda Decision, appears relevant).
  - If the SPAC warrants are liability instruments of the SPAC, one should consider whether, and to which extent, the new warrants are issued as replacement of pre-existing obligations of the SPAC. According to the split approach proposed by the Committee, we agree that it makes sense to compare the fair values and the contractual characteristics of the replacement warrants and those of the existing SPAC warrants, in order to determine the extent to which the replacement warrants are deemed only to replace the SPAC warrants, or both to replace the SPAC warrants and to remunerate the acquisition of the SPAC's net assets and listing service. If the terms and conditions are similar and if the fair value of the new warrants is equivalent to that of the SPAC warrants, the new warrants would be fully allocated to the replacement of the SPAC warrants, and only the shares issued would be allocated to the acquisition of the net assets and the listing service.
  - If the SPAC warrants are liability instruments, and the terms and conditions and the fair value of the new warrants significantly differ from those of the SPAC warrants, one should allocate the new warrants primarily to the replacement of the SPAC warrants, and any excess fair value would be allocated to the acquisition of the net assets of the SPAC and the listing service. In that situation, the shares and the portion of the warrants should be allocated to the net assets and to the listing service on a relevant basis (see above).

- 2- We do not think that the accounting outcome of the allocation above provides useful information and is consistent with the unit of account applicable to the issued instruments

Unless the new warrants are considered as replacing and only replacing the SPAC warrants in the transaction, the analysis above would lead to the conclusion that the new warrants should be partially allocated to the acquisition of a stock-exchange listing service, which is an IFRS 2 transaction. The consequence would be that each warrant would be split between an IAS 32 and an IFRS 2 component with the following accounting impacts (if the new warrants meet the definition of liability instruments in IAS 32):

- The IAS 32 component would be presented as a liability, and would be subsequently remeasured at fair value through P&L, and
- The IFRS 2 component would be presented within equity (as an award in an equity settled share-based payment transaction) and not subsequently remeasured.



We do not believe that the split accounting of a financial instrument such as the warrant (with no embedded derivative nor any feature that could trigger for separate recognition according to IFRS 9) which should be considered as a single unit of account, similar to the split accounting of a compound financial instrument, provides useful and relevant information to users.

Without contradicting the analysis above regarding the allocation of the issued instruments between the replacement of the SPAC warrants, the acquisition of the net assets of the SPAC and the acquisition of the stock-exchange listing service, we believe the Committee should consider a conclusion where:

- The unit of account is the warrant in its entirety, without any split, and
- The warrants are accounted for according to the Standard applicable to the primary allocation of the warrant (i.e., IFRS 2 if the warrants are primarily allocated to the acquisition of the listing service, and IAS 32 if the warrants are primarily allocated to the replacement of the SPAC warrants and the acquisition of the net assets of the SPAC).

We truly believe that the Committee should consider that alternative treatment, and, should the Committee agree on it, assess whether it can be proposed through an agenda decision or it requires to undertake a standard-setting project (through an Interpretation or amendments to the relevant Standards).