

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 blue ink, appearing to read 'V. Poole', with a stylized, flowing script.

Veronica Poole
Global IFRS and Corporate Reporting Leader