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VIDEO TRANSCRIPT

IFRIC agenda decisions – SPAC transactions

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> "The Committee discussed a specific question about a specific fact pattern, but touched on many aspects of SPAC accounting."

Hello. I'm Brian O'Donovan. I'm a partner at KPMG and I'm a member of the IFRS Interpretations Committee – the IFRIC.

In its March meeting, the Committee discussed SPACs – special-purpose acquisition companies. Now, a SPAC is a cash shell that's been listed on a stock exchange. SPAC transactions have been among the most talked-about deals over the last 12 months.

The Committee discussed a specific question about a specific fact pattern, but touched on many aspects of SPAC accounting.

What does a SPAC do?

The purpose of a SPAC is to identify a target – an unlisted operating company (an OpCo).

If the SPAC identifies a suitable OpCo, then the OpCo and the SPAC combine. There are different legal mechanisms to achieve this but the outcome is always the same. The OpCo gets the cash and becomes the listed entity. The investors in the SPAC – well, they get a slice of the OpCo and an opportunity to exit.

If the SPAC fails to find a suitable OpCo within a specified timeframe, often as little as two years, then the SPAC is generally wound up.

Is there a liability?

In the fact pattern considered by the Committee, the SPAC has issued ordinary shares and warrants to its founders and public investors. The OpCo acquires the SPAC by issuing its own shares and warrants in exchange for the SPAC's shares and cancellation of the SPAC warrants.

The question is, after the acquisition, does the OpCo have to recognise a liability for the new warrants it has issued?

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Well, the Committee said that the OpCo might think about the new warrants in two different ways.

The first way is that the OpCo might consider that it has assumed the SPAC warrants and issued its own warrants to replace them. That's slam dunk liability accounting.

The other way of thinking about the new warrants is that they're part of the consideration for the acquisition. That is, the OpCo has issued shares and warrants to acquire cash and the stock exchange listing service. Now that's interesting, because it seems to open up the possibility that the whole thing is a giant share-based payment transaction and everything's equity. But there's a catch. The Committee insisted that you cannot have a share-based payment transaction for cash. So, to the extent the OpCo has issued warrants to acquire cash, they must still be liabilities.

So, overall, the Committee concluded that after the acquisition the OpCo does account for a liability – for some or all of the warrants it issued.

Next steps

The Committee agreed to issue a tentative agenda decision – it's in the March IFRIC Update, available for comment until late May. The agenda decision addresses this specific question but touches on many aspects of SPAC accounting.

Take a look – see what you think. Decide if you want to comment.

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