INSTITUTE OF SINGAPORE CHARTERED ACCOUNTANTS

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ISCA Financial Reporting Guidance 4

FRG 4:

Accounting Considerations for a Special Purpose Acquisition Company (SPAC) under SGX SPAC Listing Framework

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Note:

- The fact patterns and examples presented in this FRG are illustrative in nature. The appropriate accounting depends on the facts and circumstances of the SPAC and the specific terms and conditions of the financial instruments issued.

- References made to the Singapore Exchange ("SGX") website are accurate as at the date of issuance of this FRG. Please refer to the respective SGX's webpages relating to SPACs for latest updates.

- This FRG is applicable to SPACs listed on the SGX under the SGX SPAC Listing Framework, with financial statements prepared in accordance with Singapore Financial Reporting Standards (International) ("SFRS(I)s").

- This FRG does not address the accounting considerations for SPACs reporting under US GAAP.

- This FRG contains references to Agenda Decisions issued by the IFRS Interpretations Committee ("IFRIC"). Agenda Decisions include explanatory material to facilitate greater consistency in the application of International Financial Reporting Standards ("IFRS Standards"). The broad policy intention of the Accounting Standards Council of Singapore ("ASC") is to adopt IFRS Standards as issued by the International Accounting Standards Board ("IASB"). Therefore, Agenda Decisions are relevant to Singapore entities reporting under SFRS(I)s.

Abbreviations

The following abbreviations are used in this FRG:

Abbreviation	Description
IPO	Initial Public Offering
MAS	Monetary Authority of Singapore
SGX	Singapore Exchange
SPAC	Special Purpose Acquisition Company

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1. Overview of SPAC

A Special Purpose Acquisition Company ("SPAC") is a shell entity which raises capital from investors through a public listing for the sole purpose of acquiring another private company in the future. In recent years, SPACs have gained popularity as an alternative vehicle for a private company to achieve a stock exchange listing without going through its own initial public offering ("IPO"). After the acquisition by the SPAC, that private company becomes part of a listed public company.

In September 2021, the Singapore Exchange ("SGX") introduced a new regulatory framework for the listing of SPACs on its Mainboard to give companies an alternative listing avenue.

(A) What is a SPAC?

As defined in SGX Mainboard Listing Rules[1], a SPAC is a company with no prior operating history, operating and revenue-generating business or asset at the point of the IPO, that raises proceeds for the sole purpose of undertaking a business combination[2] in accordance with the business strategy and acquisition mandate disclosed in the prospectus issued in relation to the SPAC's IPO.

(B) What is the difference[3] between a SPAC IPO and a traditional IPO?

Unlike a traditional IPO, a SPAC listing has a shorter time to market. This is because a SPAC has no historical financial results and assets description, and minimal business-related risks to disclose at IPO. Investors will be provided more information about a SPAC's target assets/business upon the announcement of a proposed business combination agreement (that is, a proposal to acquire or combine with an operating company).

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[1] Source: SGX Mainboard Rules – Definitions and Interpretation
http://rulebook.sgx.com/rulebook/definitions-and-interpretation-0

[2] Definitions of terms used by SGX may differ from that under SFRS(I)s.

[3] Source: SGX website – Research & Education: Securities Products (SPACs Product Information – What is the difference between SPACs and traditional IPOs?)
https://www.sgx.com/research-education/securities-products#SPACs

(C) The typical SPAC life cycle

The life cycle of a SPAC typically involves the following four phases:

- **Phase 1** – Formation of the SPAC
- **Phase 2** – IPO (where the SPAC is listed on the stock exchange)
- **Phase 3** – Identifying a suitable target company to be acquired by the SPAC; negotiations with the target company; approval to be obtained for the business combination

  Preparation of Pro Forma Consolidated Financial Information

  During Phase 3, Pro Forma Consolidated Financial Information will typically be prepared to illustrate the material financial effects that the business combination would have had on the SPAC and the target company. In the preparation of the Pro Forma Consolidated Financial Information, management of the SPAC and the target company would typically make significant estimates and assumptions based on the latest available information to determine the pro forma adjustments. The actual financial results of the post-combination entity at the financial year end may differ significantly from that in the Pro Forma Consolidated Financial Information due to factors such as impairment of goodwill post-business combination and movements in share prices (if applicable). Issuers are encouraged to highlight this in the Pro Forma Consolidated Financial Information as illustrated below:

  > Illustrative disclosure
  >
  > *The Pro Forma Consolidated Financial Information has been presented for illustrative purposes only and is not necessarily indicative of the financial position and results of operations that would have been achieved had the business combination and related transactions occurred on the dates indicated. Further, the Pro Forma Consolidated Financial Information may not be useful in predicting the future financial condition and results of operations of the post-combination company. The actual financial position and results of operations may differ significantly from the pro forma amounts reflected herein due to a variety of factors. The pro forma adjustments represent management's estimates based on information available as of the date of the Pro Forma Consolidated Financial Information and is subject to change as additional information becomes available and analyses are performed.*

- **Phase 4** – De-SPAC (where the SPAC and target company are "combined") and the resulting group or combined entity is the listed entity that carries on the target company's original business activities

If the business combination (or De-SPAC) is not completed (that is, Phase 4 is not completed)[4]

If the business combination is not completed[5] within the permitted time frame (including any extension obtained), the SPAC will be liquidated. All assets of the SPAC, including all funds held in the escrow account, will be returned to shareholders on a pro-rata basis. SPAC warrants will be deemed expired and warrant holders are not entitled to liquidation distribution. The SPAC's shares and warrants will be delisted on or around the date when the liquidation distribution is completed. SPAC sponsors are expected to announce via SGXNET as soon as they are aware that they cannot complete its business combination within the permitted time frame.

Figure 1 below illustrates the life cycle of a typical SPAC and the shareholders at each phase of its life cycle.

[4] Source: SGX website – Research & Education: Securities Products (SPACs SPAC Lifestyle– Liquidation) https://www.sgx.com/research-education/securities-products#SPACs

[5] Some instances which may result in the business combination not being completed are inability of the SPAC to identify a suitable target company to be acquired; and relevant regulatory approval(s) for the acquisition of the identified target company not being obtained.

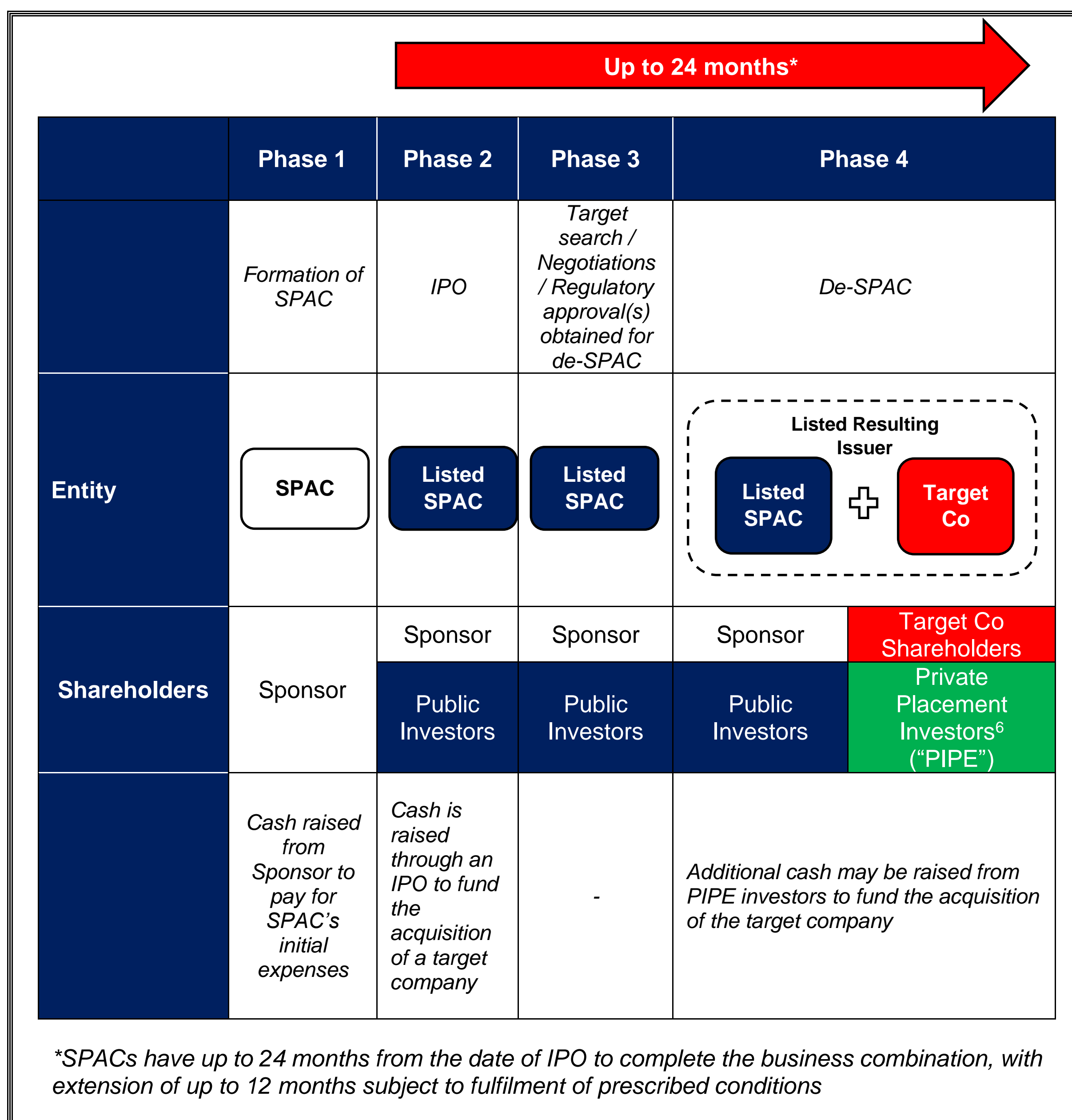

Figure 1 – Life cycle of a typical SPAC and shareholders at each phase of its life cycle

[6] Private Investment in Public Equity (or PIPE) means a private placement of securities of a publicly listed company made to institutional investors (e.g. asset managers) and/or accredited investors. These investors are known as PIPE investors. PIPE investors typically participate in a business combination if additional equity fundraising is required. During this transaction, the PIPE investors will enter into an agreement to purchase a pre-negotiated amount and value of the company's securities. PIPE investors will typically negotiate the investment terms and valuation of the acquisition target together with the SPAC sponsors and target company's shareholders. In Singapore, an independent valuation (by a valuer) of an acquisition target is not required if PIPE happens at De-SPAC given that PIPE investors would have already done their due diligence.

Source: SGX website – Research & Education: Securities Products (SPACs SPAC Structure – Who are PIPE investors?)
https://www.sgx.com/research-education/securities-products#SPACs

(D) Key features[7] of the SGX SPAC Listing Framework

The SPAC listing framework issued by SGX in September 2021 covers the following features.

Pre-listing

Market capitalisation	≥ S$150 million
IPO issue price	≥ S$5 per unit
Public shareholding spread	≥ 25% of total issued SPAC shares (excl. treasury shares) must be held by at least 300 public shareholders
Securities participation by sponsor	Quantum equivalent to ≥ 2.5% - 3.5% of the value of IPO shares/units/warrants depending on market capitalisation of the SPAC

Post-listing

Placement of IPO proceeds in escrow account	≥ 90% of gross IPO proceeds raised must be placed in an escrow account (operated by an independent escrow agent which is a financial institution licensed and approved by MAS)
Sponsor's promote limit	Up to 20% of issued shares at IPO (on a fully diluted basis)
Moratorium	• Sponsors are not allowed to divest their securities from IPO to de-SPAC • 6-month moratorium after de-SPAC with a further 6-month moratorium thereafter on 50% of original equity holdings at de-SPAC if certain criteria are met
Warrants	Warrants issued to shareholders will be detachable from the Units and maximum percentage dilution to shareholders arising from the conversion of warrants issued at IPO is capped at 50%
Shareholder rights	Shareholders have voting, redemption and liquidation rights in relation to a proposed business combination, subject to certain exceptions
Permitted timeframe for de-SPAC	Within 24 months of IPO with extension of up to 12 months subject to fulfilment of prescribed conditions
Approval for de-SPAC	De-SPAC can proceed if >50% of independent directors approve the transaction **and** >50% of shareholders vote in support of the transaction
Fair market value of initial business combination	Initial business combination to have a fair market value of ≥ 80% of the SPAC's escrowed funds
Appointment of independent valuer for de-SPAC	Independent valuer for business combination to be appointed in the event of an absence of (i) PIPE financing; or (ii) where SPAC acquires a mineral oil and gas (MOG) or a property investment/development target

[7] Source: SGX news release – SGX introduces SPAC listing framework
https://www.sgx.com/media-centre/20210902-sgx-introduces-spac-listing-framework

Source: SGX website – Research & Education: Securities Products (SPAC Framework)
https://www.sgx.com/research-education/securities-products#SPACs

2. Key accounting considerations during a SPAC life cycle

SPAC transactions introduce a number of financial reporting considerations. This section highlights key accounting considerations during the different phases of a SPAC life cycle.

	Phase 1	Phase 2	Phase 3	Phase 4	
	Formation of SPAC	*IPO*	*Target search / Negotiations / Regulatory approval(s) obtained for de-SPAC*	*De-SPAC*	
Entity	**SPAC**	**Listed SPAC**	**Listed SPAC**	**Listed Resulting Issuer** **Listed SPAC** + **Target Co**	
Shareholders	Sponsor	Sponsor Public Investors	Sponsor Public Investors	Sponsor Public Investors	Target Co Shareholders Private Placement Investors ("PIPE")
Key accounting considerations	• **Accounting for financial instruments (Section 2(A))** - Promoter Shares - Promoter Warrants - Public Shares - Public Warrants		-	• **Accounting for business combinations (Section 2(B))** • **Classification of financial instruments after acquisition (Section 2(C))**	

(A) Accounting for financial instruments

Throughout its life, a SPAC typically issues various kinds of financial instruments. These include Promoter Shares, Promoter Warrants, Public Shares and Public Warrants. The financial instruments issued are generally considered to be freestanding financial instruments as they are typically legally detachable and separately exercisable. The accounting for the financial instruments could be complex and requires significant judgement in applying the relevant accounting standards. Hence, careful consideration of the terms of each financial instrument is required to determine the appropriate accounting treatment. It is also important to consider the economic substance of the transaction – whether the SPAC issues the financial instrument for (a) cash (or another financial asset); or (b) services (or goods); or (c) partly cash (or another financial asset) and partly services (or goods).

Key accounting questions to consider are:

- **Which is the appropriate accounting standard to apply – SFRS(I) 1-32 *Financial Instruments: Presentation*[8] or SFRS(I) 2 *Share-based Payment*[9]?**

SFRS(I) 1-32 establishes principles for presenting financial instruments as financial liabilities or equity and for offsetting financial assets and financial liabilities. It is applicable to all financial instruments except as set out in paragraph 4 of SFRS(I) 1-32. One exception is for financial instruments, contracts and obligations under share-based payment transactions[10] to which SFRS(I) 2 applies (paragraph 4(f) of SFRS(I) 1-32).

SFRS(I) 2 is applicable to transactions where the entity has received goods or services from the supplier (including an employee) in a share-based payment arrangement[11].

Determining which standard to apply is important as the classification of debt or equity under each standard is different.

Some relevant considerations include:
- What is the commercial rationale behind the issuance of the financial instrument?
- Are the Sponsors (or Promoters) obliged to provide services free or below market value in exchange for the financial instrument?

[8] SFRS(I) 1-32 is equivalent to IAS 32 *Financial Instruments: Presentation*.

[9] SFRS(I) 2 is equivalent to IFRS 2 *Share-based Payment.*

[10] Appendix A of SFRS(I) 2 defines a "share-based payment transaction" as follows:

A transaction in which the entity
(a) receives goods or services from the supplier of those goods or services (including an employee) in a share-based payment arrangement; or
(b) incurs an obligation to settle the transaction with the supplier in a share-based payment arrangement when another group entity receives those goods or services.

[11] Appendix A of SFRS(I) 2 defines a "share-based payment arrangement" as follows:

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) cash or other assets of the entity for amounts that are based on the price (or value) of equity instruments (including shares or share options) of the entity or another group entity, or
(b) equity instruments (including shares or share options) of the entity or another group entity,
provided the specified vesting conditions, if any, are met.

- Are the Sponsors (or Promoters) compensated separately for their services?
- Is the financial instrument subject to any service or vesting conditions?
- Are there any different rights attached to the financial instrument as compared to financial instruments issued to public shareholders?
- Are the Sponsors (or Promoters) paying for the financial instruments at fair value?

Promoters usually provide significant support to the SPAC in relation to IPO, target search, negotiation and consummation of the acquisition deal. Promoters also typically hold management or board positions at the SPAC. Hence, it is important to assess whether the financial instruments are issued solely for, or at a lower price to compensate for services rendered by the Promoters.

- **If SFRS(I) 1-32 applies, should the financial instruments be classified as liabilities, equity or compound instruments in the SPAC's financial statements?**

One key differentiating factor between a financial liability and an equity is whether the issuer has a contractual obligation to deliver cash or another financial asset.

A liability is a contract that imposes an obligation for the issuing entity to deliver cash or another financial asset, while an equity instrument is a contract that evidences a residual interest in the assets of the entity after deducting all of its liabilities. However, if a contract is a derivative (e.g. warrants) to be settled using the issuer's own shares, the classification will depend on whether the number of shares to be issued is fixed in exchange for a fixed amount of cash or another financial asset[12].

Determination of the classification of the financial instrument requires careful assessment. It is important to consider the terms of the financial instrument issued, including assessment of (a) whether there is any contractual obligation to deliver cash or another financial asset, including under contingent settlement provisions and (b) whether there can be settlement by own equity instruments that are not "fixed for fixed". It is also important to consider if the SPAC is a limited life entity depending on the structure/vehicle and whether liquidation is within the control of the SPAC or is uncertain to occur but at the discretion of the instrument holder.

[12] "Fixed for fixed" under SFRS(I) 1-32 requires that for a contract that will be settled by the entity issuing "a **fixed** number of its own equity instruments", it will be classified as equity if "in exchange for a **fixed** amount of cash or another financial asset".

2(A)(1) Promoter Shares

Alternative terminology	• Founder Shares • Promote Shares • Class B Shares
Typically issued to	• SPAC sponsors • Management team
Typical features	• Are issued in exchange for a nominal amount of cash, for services* or for both **Sponsors typically provide significant support to the SPAC in terms of IPO, target search, negotiation and consummation of the acquisition of the target company* • Have similar voting rights as Public Shares, save for certain exceptions, stipulated under the SGX SPAC Listing Framework, such as for resolutions on the De-SPAC transaction and extension of time to complete the De-SPAC transaction. • Are converted to Public Shares upon completion of De-SPAC transaction • Are non-redeemable by the holder if no De-SPAC transaction is completed within the permitted time frame and the SPAC is liquidated • Are not entitled to the liquidation distribution of the funds in the escrow account(s)

Below are two illustrations of the application of accounting principles in the determination of the appropriate accounting standard to be applied to account for Promoter Shares.

Illustration 1 – Promoter Shares issued at nominal price and accounted for as share-based payment under SFRS(I) 2	
Fact pattern	**Analysis**
SPAC A issued 1,000,000 Promoter Shares to its sponsors at $0.10 per share. The IPO issue price of Public Shares is $5 per share. Other than Promoter Shares and Promoter Warrants, the sponsors do not receive any additional compensation for the services. The sponsors hold management positions in SPAC A and performed services for the SPAC (i.e. provision of significant support to the SPAC in terms of IPO, target search, negotiation and consummation of the acquisition deal). The services have been assessed to be similar to those provided by employees. The Promoter Shares are subject to the following terms and conditions:	As the Promoter Shares are issued for services by sponsors, the transaction is an equity-settled share-based payment under SFRS(I) 2. Key indicators include: • The commercial rationale for the issuance of Promoter Shares is that the sponsors provide significant support to SPAC A – the most significant of which is the identification of a target and the negotiation and consummation of a business combination with the identified target. • The nominal subscription price of Promoter Shares (i.e. $0.10 per share) as compared to the IPO issue price of Public Shares (i.e. $5 per share) into which the Promoter Shares will be converted upon completion of business combination without any

- The Promoter Shares will be converted into Public Shares upon a successful business combination transaction without any additional monetary consideration from the Promoters.

- [Vesting conditions] Upon the completion of the business combination transaction, the Promoter Shares existing at that point in time shall convert to Public Shares as follows (Promote Schedule):
  - 1/3 on the trading day following the consummation of the business combination
  - 1/3, based on certain vesting condition
  - 1/3, based on certain vesting condition

> <u>Note</u>
> In this illustration, the progressive vesting pattern of the Promoter Shares is assumed to be aligned to the services by the sponsor.
>
> In practice, the Promote Schedule is subject to negotiations between the sponsor and the SPAC. Hence, the Promoter Shares may not vest in the same pattern as the above Promote Schedule.

additional monetary consideration indicates that the Promoter Shares represent rights to Public Shares at a discount.

- The Promoter Shares entitle the holder to receive Public Shares provided the specified vesting conditions are met.

- The sponsors do not receive any additional compensation for the services (other than Promoter Shares and Promoter Warrants).

The services have been assessed to be similar [13] to those provided by employees. Hence, the fair value of the services received shall be measured by reference to the fair value [14] of the equity instruments granted. [Paragraph 11 of SFRS(I) 2]

> <u>Note</u>
> In this illustration, the sponsors are compensated for their services solely through the Promoter Shares and Promoter Warrants.
>
> In practice, the sponsors may receive monetary compensation for the services. Hence, the SPAC may need to consider whether the monetary compensation is fully or only partially commensurate with the services. In addition, in many cases, the vesting conditions may not be explicitly stated in the agreement. Significant judgement is required to determine the appropriate accounting that reflects the substance of the arrangement.
>
> In many cases, it is likely that Promoter Shares will fall under the scope of SFRS(I) 2. If SFRS(I) 2 does not apply, SFRS(I) 1-32 is applied in accounting for the Promoter Shares.

<u>Implications for accounting of Promoter Shares as share-based payment under SFRS(I) 2</u>

The share-based payment will need to be classified as either equity-settled or cash-

[13] If it is assessed that the services are <u>not</u> similar to those provided by employees, the goods or services received are measured at fair value. However, if the fair value of the goods or services received cannot be estimated reliably, the goods or services received are measured by reference to the fair value of the equity instruments granted. [Paragraph 13 of SFRS(I) 2]

[14] Assuming that the fair value of the Promoter Shares is $4 per share. SPAC A will recognise (i) $0.10 as cash; (ii) $3.90 as share-based payment expense; and (iii) $4 as equity.

	settled. This depends on the terms and conditions of the arrangement. If equity-settled, the share-based payment amount is recognised in equity. The fair value of the equity-settled share-based payment is measured at the grant date and is not subsequently remeasured. [Paragraph 11 and 13 of SFRS(I) 2] If cash-settled, the obligation is recognised as a liability and measured at fair value on initial recognition. The fair value of the cash-settled share-based payment is remeasured at the end of each reporting period and at the date of settlement. Changes in the fair value of the liability are recognised in the profit or loss. [Paragraph 30 of SFRS(I) 2] SFRS(I) 2 uses the term 'fair value' in a way that differs in some respects from the definition in SFRS(I) 13 *Fair Value Measurement* [15]. Therefore, when applying SFRS(I) 2 an entity measures fair value in accordance with SFRS(I) 2, not SFRS(I) 13. [Paragraph 6A of SFRS(I) 2] When the share-based payment is subject to the fulfilment of vesting conditions, the expense is recognised in the profit or loss over the service or vesting period. **Other questions to consider:** • What is the grant date of the Promoter Shares? Are there factors that may affect the grant date (e.g. shareholders' approval is required to be obtained on the agreement)? • What are the vesting conditions? • What is the vesting period? • What is the fair value of the Promoter Shares? Which of the conditions* may affect the fair value? What is the appropriate valuation model to use? *Non-market [16] vesting conditions are excluded from the determination of fair value. <u>Note</u> Careful consideration of the facts and circumstances and judgement is necessary in assessing the above.

[15] SFRS(I) 13 is equivalent to IFRS 13 *Fair Value Measurement*.

[16] A non-market vesting condition is one that is based on the entity's operations (or activities) or the operations or activities of another entity in the same group; a market condition is one that is based on the price (or value) of the entity's equity instruments or the equity instruments of another entity in the same group (including shares and share options) [Appendix A, SFRS(I) 2]

If SFRS(I) 2 does not apply, SFRS(I) 1-32 is applied in accounting for the Promoter Shares.

The following requirements under SGX SPAC Listing Framework should be noted:

- the issuer's founding shareholders and management team must, in aggregate, subscribe for a minimum value of equity securities based on the subscription price at IPO (≥ 2.5% - 3.5% of IPO shares/units/warrants depending on the market capitalisation of the issuer) [SGX Listing Rule 210(11)(e)].

  The above requirement for minimum securities participation serves to increase the sponsors' and management team's 'skin in the game' and alignment of their interest with that of other shareholders in the SPAC. This requirement differs from that in other SPAC markets.

- the founding shareholders, the management team, and their associates must waive their right to participate in the liquidation distribution in respect of all equity securities owned or acquired by them prior to or pursuant to the IPO [SGX Listing Rule 210(11)(n)(iii)].

- there is a moratorium on the shares of the sponsors and other specified persons from IPO to de-SPAC, 6-month moratorium after de-SPAC and a further 6-month moratorium thereafter on 50% of original shareholdings at de-SPAC if certain criteria are met [SGX Listing Rule 210(11)(h)].

  The above requirement serves to align the interests of key persons involved in the establishment and management of the SPAC with that of other shareholders, so that they remain invested in the future growth and strategy of the SPAC even after de-SPAC. The required SPAC IPO moratorium period is longer than a traditional IPO moratorium period.

In view of the above requirements, it is unlikely for Promoter Shares to be accounted for as liability under SFRS(I) 1-32. This is because the Promoter Shares are not redeemable for cash or another financial asset at the option of the holder[17].

[17] Even though SGX Listing Rule 210(11)(n)(iii) requires the founding shareholders, the management team, and their associates to waive their right to participate in liquidation distribution in respect of all equity securities owned or acquired by them prior to or pursuant to IPO, SGX RegCo has granted, on a case-by-case basis, the first three SGX listed SPACs waiver from this requirement, that is, to allow sponsors to redeem the shares purchased at full IPO price on liquidation. Such waivers should be considered in the equity/liability classification of the Promoter Shares issued to Promoters in their capacity as investors at fair market price (i.e. shares are issued at the same IPO price as shares issued to public shareholders) and judgement should be applied in determining the appropriate accounting treatment.

<table>
<tr><th colspan="2">Illustration 2 – Shares issued to Promoters at fair value and accounted for as equity under SFRS(I) 1-32</th></tr>
<tr><th>Fact pattern</th><th>Analysis</th></tr>
<tr><td rowspan="2">Same fact pattern as Illustration 1, except for the following facts:

• The sponsors receive monetary compensation which is fully commensurate with the services.

• The Promoter Shares are issued to the sponsors at $4 per share (instead of at $0.10 per share in Illustration 1).

• No vesting conditions for the conversion of Promoter Shares to Public Shares</td><td>Promoter Shares are assessed to be within the scope of SFRS(I) 1-32 as they are not issued for services by the sponsors.

Key indicators include:

• The sponsors receive full monetary compensation for the services.

• The Promoter Shares are issued at the fair value of $4 per share into which the Promoter Shares will convert without any additional monetary consideration.

• No vesting conditions[18] for the conversion of Promoter Shares to Public Shares</td></tr>
<tr><td>Promoter Shares are assessed to be equity because they meet the conditions set out in paragraph 16(a) and 16(b) of SFRS(I) 1-32 to be classified as equity.</td></tr>
</table>

[18] Service vesting conditions would make the financial instrument more likely to be within the scope of SFRS(I) 2. However, the absence of such vesting service conditions does not automatically preclude the financial instrument from being within the scope of SFRS(I) 2. Careful consideration of the facts and circumstances and judgement is necessary in the assessment.

2(A)(2) Promoter Warrants

Alternative terminology	• Founder Warrants • Promoter Warrants
Typically issued to	• SPAC sponsors • Management team
Typical features	• Are issued in exchange for nominal amount of cash, for services* or for both **Sponsors typically provide significant support to the SPAC in terms of IPO, target search, negotiation and consummation of the acquisition of the target company* • Warrants normally give the holder the right to purchase Public Shares at an agreed price • Could be settled gross, net in cash or shares or in a combination of different ways

Below is an illustration of the application of accounting principles in the determination of the appropriate accounting standard to be applied to account for Promoter Warrants.

Illustration 3 – Promoter Warrants accounted for as share-based payment under SFRS(I) 2	
Fact pattern	**Analysis**
SPAC A issued 500,000 Promoter Warrants to its sponsors at a subscription price of $0.50 per warrant. The fair value of each warrant is $3. Other than Promoter Shares and Promoter Warrants, the sponsors do not receive any additional compensation for the services. The sponsors hold management positions in SPAC A and performed services for the SPAC (i.e. provision of significant support to the SPAC in terms of IPO, target search, negotiation and consummation of the acquisition deal). The exercise price of each Promoter Warrant is $5.	Promoter Warrants are assessed to be within the scope of SFRS(I) 2 as they are issued for services by the sponsors. Key indicators include: • The commercial rationale for the issuance of Promoter Warrants is that the sponsors provide significant support to SPAC A – the most significant of which is the identification of a target and the negotiation and consummation of a business combination with the identified target. • The Promoter Warrants are issued at a significant discount to their fair value (i.e. $3 per warrant). Note If Promoter Warrants had been issued at fair value for cash or another financial asset, only SFRS(I) 1-32 would apply. • The sponsors do not receive any additional compensation for the services (other than Promoter Shares and Promoter Warrants).

	The services have been assessed to be similar[19] to those provided by employees. The fair value of the services received shall be measured by reference to the fair value[20] of the equity instruments granted. [Paragraph 11 of SFRS(I) 2] Note In this illustration, the sponsor is compensated for its services solely through the Promoter Shares and Promoter Warrants. In practice, the sponsor may receive monetary compensation for the services. Hence, it may be necessary to consider whether the monetary compensation is fully or partially commensurate with the services. In addition, in many cases, the vesting conditions may not be explicitly stated in the agreement and the Promoter Warrants may be issued under varying exercise and redemption terms. Significant judgement is required to determine appropriate accounting that reflects the substance of the arrangement.

If SFRS(I) 2 does not apply, SFRS(I) 1-32 is applied in accounting for the Promoter Warrants.

[19] If it is assessed that the services are not similar to those provided by employees, the goods or services received are measured at fair value. However, if the fair value of the goods or services received cannot be estimated reliably, the goods or services received are measured by reference to the fair value of the equity instruments granted. [Paragraph 13 of SFRS(I) 2]

[20] The fair value of the Promoter Warrants is $3 per warrant. SPAC A will recognise (i) $0.50 as cash; (ii) $2.50 as share-based payment expense; and (iii) $3 as equity.

2(A)(3) Public Shares

Alternative terminology	• Class A shares
Typically issued to	• External investors
Typical features	• Voting rights, including right to approve any proposed acquisition • Dividend rights • Redeemable at the option of the holder if an acquisition is approved and completed within the permitted timeframe • Mandatorily redeemable if no De-SPAC transaction is completed within the permitted timeframe and the SPAC is liquidated

Below is an illustration of the application of accounting principles in the determination of the appropriate accounting standard to be applied to account for Public Shares.

Note
Public Shares are typically not accounted for under SFRS(I) 2 as transactions with shareholders in their capacity as shareholders are excluded from SFRS(I) 2's scope and no goods or services are provided by the holders of Public Shares to the SPAC.

Illustration 4 – Public Shares accounted for as liability under SFRS(I) 1-32	
Fact pattern	**Analysis**
SPAC A issued 20,000,000 IPO Units comprising Public Shares and Public Warrants at a combined subscription price of $5 per IPO Unit. The Public Shares are subject to the following terms and conditions: • Public shares will only be successfully redeemed if the business combination transaction is respectively approved by more than 50% of independent directors and 50% of shareholders at the general meeting of shareholders[21] and subsequently consummated • Each Public Share that is redeemed shall be redeemed in cash for a price equal to the aggregate amount on deposit in escrow account related to the proceeds from the placement of IPO Units comprising Public Shares and Public Warrants, divided by the number of outstanding Public Shares, subject to (i) availability of sufficient amounts in the escrow account and (ii) sufficient distributable profits and reserves of SPAC A.	Public Shares are classified as liabilities as they are redeemable at the option of the holder. Key indicators include: • Public Shares are redeemable at the option of the holder. • Public Shares have certain redemption features that are considered to be outside SPAC A's control. That is, key decisions affecting potential redemptions reflect private actions of the shareholders in their capacity as holders of Public Shares and hence, the outcome of a redemption is not within the control of SPAC A. • SPAC A does not have unconditional right to avoid delivering cash or another financial asset.

[21] Note:

- Founding shareholders, the management team, and their associates, are not permitted to vote with Promoter Shares as stated under Listing Rule 210(11)(m)(viii); and
- Interested persons (which may include the founding shareholders, management team and their respective associates) are not permitted to vote if the business combination transaction is an interested person transaction as stated under Listing Rule 210(11)(m)(ix).

	Note For puttable financial instruments which include a contractual obligation for the issuer to repurchase or redeem that instrument for cash or another financial asset on exercise of the put, paragraphs 16A and 16B of SFRS(I) 1-32 provide an exception for such financial instruments to be classified as equity if they contain the stated features in the said paragraphs. Judgement needs to be applied in assessing whether the Public Shares contain the said features and hence, should be classified as equity.

Important note

In July 2022, the IFRS Interpretations Committee (IFRIC) issued an Agenda Decision[22] relating to the classification of public shares as financial liabilities or equity. As set out in this Agenda Decision, the key consideration is whether the SPAC can avoid delivering cash or some financial asset to the holders of public shares. The issue is whether the decisions made by the shareholders are considered to be decisions of the entity. IFRIC has deferred the issue to be addressed as part of IASB's Financial Instruments with Characteristics of Equity (FICE) project. However, IFRIC highlighted the importance of the SPAC disclosing information in the notes to its financial statements about the classification of its public shares.

It should be noted that a key difference between the fact pattern set out in the Agenda Decision and that in Illustration 4 is as follows:

In the fact pattern set out in the Agenda Decision, the shareholders of the SPAC have the contractual right to extend the SPAC's life beyond that specified period if no target entity is acquired. This suggests that the life of the SPAC in question can be extended "indefinitely".

It should be noted that under SGX SPAC Listing Framework, the permitted timeframe for de-SPAC for a SPAC listed on SGX is within 24 months of IPO with extension of up to 12 months subject to fulfilment of prescribed conditions. Hence, the life of a Singapore listed SPAC is limited to a maximum of 36 months from the date of listing and will be liquidated if the SPAC cannot complete a business combination within the permitted timeframe.

[22] IFRIC Agenda Decision (July 2022) *Special Purpose Acquisition Companies (SPAC): Classification of Public Shares as Financial Liabilities or Equity (IAS 32 Financial Instruments: Presentation)* https://www.ifrs.org/content/dam/ifrs/supporting-implementation/agenda-decisions/2022/spac-classification-of-public-shares-as-fin-liabilities-or-equity-jul-2022.pdf

2(A)(4) Public Warrants

Typically issued to	• External investors
Typical features	• Warrants normally give the holder the right to purchase Public Shares at an agreed price • Could be settled gross, net in cash or shares or in a combination of different ways

Below is an illustration of the application of accounting principles in the determination of the appropriate accounting standard to be applied to account for Public Warrants.

<u>Note</u>
Public Warrants are typically not accounted for under SFRS(I) 2 as transactions with shareholders in their capacity as shareholders are excluded from SFRS(I) 2's scope and no goods or services are provided by the holders of Public Warrants to the SPAC.

Illustration 5 – Public Warrants accounted for as liability under SFRS(I) 1-32

Fact pattern	**Analysis**
SPAC A issued 20,000,000 IPO Units comprising Public Shares and Public Warrants at a combined subscription price of $5 per IPO Unit. The Public Warrants are subject to the following terms and conditions: • Each whole Public Warrant entitles the holder to exercise the warrants to acquire one Public Share at $5 per Public Share. • Upon exercise of the Public Warrants, a Public Warrant holder will receive in aggregate a number of Public Shares equal to the number of Public Warrants validly exercised multiplied by the quotient of (i) the 20-day average market price of the Public Shares minus the exercise price, (ii) divided by the share price during the period.	Public Warrants are assessed to be classified as derivative liabilities based on the following key indicators: • While a Public Warrant gives the holder the right to subscribe for 1 Public Share (fixed number) in exchange for $5 (fixed amount), they also give the holder the right to receive the intrinsic value (20-day average market value less the exercise price of $5) by receiving a variable number of Public Shares equivalent to the intrinsic value without any cash subscription. This breaches the “fixed for fixed” requirement for equity classification.

<u>Important note</u>

Financial instruments (such as Promotor Shares, Promotor Warrants, Public Shares, Public Warrants) issued by different SPACs may be subject to different terms and conditions as well as SPAC-specific facts and circumstances.

To determine the appropriate accounting treatment for each financial instrument, the requirements of the relevant accounting standards, Singapore Stock Exchange rules and regulations, provisions of the SPAC’s own constitutional documents, shareholder’s agreements and, relevant laws and regulations need to be understood. The terms and conditions of the financial instruments issued may need to be monitored to assess the continuing appropriateness of the classification of the financial instruments. Any significant judgements made in relation to the accounting of the financial instruments should be disclosed in the SPAC’s financial statements in accordance with paragraph 122 of SFRS(I) 1-1 *Presentation of Financial Statements.*

(B) Accounting for business combinations

A significant event in a SPAC's life cycle is to consummate the acquisition of a target company – a transaction which will transform the SPAC from an entity whose assets are mainly cash to being a parent company of a group of operating entities. The accounting for this transaction could be complex and requires careful analysis of the facts and circumstances and significant judgement to be applied.

Key questions to consider are:

- **Who is the accounting acquirer – SPAC or Target?**

  SFRS(I) 3 *Business Combinations*[23] defines an acquirer as the entity that obtains control of the acquiree.

  The identification of the accounting acquirer is an important step in business combination accounting as the acquiree's identifiable assets and liabilities are to be measured at their acquisition-date fair values and the acquirer's assets and liabilities are to be measured at their existing carrying amounts. This will impact the amount of goodwill and the combined entity's net assets recognised as at the acquisition date and the comparatives to be presented.

  In a SPAC's acquisition of an operating company, the SPAC is usually the legal acquirer and the operating company is the legal acquiree. However, on the basis of the guidance in the box below, the operating company is usually identified as the accounting acquirer and the SPAC as the accounting acquiree. This is commonly known as reverse acquisition or a reverse takeover. It should be noted that the assessment of the accounting acquirer can be different in other cases depending on individual facts and circumstances. The next question is whether the accounting acquirer has acquired a business or just assets.

The guidance in SFRS(I) 10 *Consolidated Financial Statements*[24] should be used to identify the acquirer. If a business combination has occurred but applying the guidance in SFRS(I) 10 does not clearly indicate which of the combining entities is the acquirer, the following factors in paragraphs B14 to B18 of SFRS(I) 3 should be considered in making that determination:
 	
• If a business combination is effected primarily by transferring cash or other assets or by incurring liabilities, the acquirer is usually the entity that transfers the cash or other assets or incurs the liabilities [paragraph B14].
 	
• In a business combination is effected primarily by exchanging equity interests, the acquirer is usually the entity that issues its equity interests. Other pertinent facts and circumstances should be considered, including:
  ▪ the relative voting rights of the owners of the combining entities in the combined entity after the business combination
  ▪ the existence of a large minority voting interest in the combined entity if no other owner or organised group of owners has a significant voting interest
  ▪ the composition of the governing body of the combined entity
  ▪ the composition of the senior management of the combined entity
  ▪ the terms of the exchange of equity interests
  [paragraph B15]

[23] SFRS(I) 3 is equivalent to IFRS 3 *Business Combinations*

[24] SFRS(I) 10 is equivalent to IFRS 10 *Consolidated Financial Statements*

- Relative sizes (measured in, for example, assets, revenues or profit) of the combining entities. The acquirer is typically significantly greater than the other combining entity or entities [paragraph B16 and B17].

- A new entity formed to effect a business combination is not necessarily the acquirer. If a new entity is formed to issue equity interests to effect a business combination, one of the combining entities that existed before the business combination shall be identified as the acquirer by applying the guidance in paragraphs B13–B17. In contrast, a new entity that transfers cash or other assets or incurs liabilities as consideration may be the acquirer [paragraph B18].

- **Is the acquired entity a business?**

  SFRS(I) 3 applies to a transaction or event in which a reporting entity obtains control of one or more businesses, including a transaction referred to as a “true merger” or a “merger of equals” (i.e. a business combination). However, SFRS(I) 3 does not apply to the acquisition of an asset or a group of assets that does not constitute a business.

The above two questions result in four possible accounting outcomes:

	Accounting acquirer – SPAC	Accounting acquirer – Target company
Accounting acquiree – a business	**Outcome 1: Acquisition of a business** • To apply recognition and measurement requirements of SFRS(I) 3 to the identifiable assets and liabilities of the **legal and accounting acquiree (i.e. the target company)**.	**Outcome 3: Reverse acquisition of a business** • To identify the legal acquiree (Target company) as the **accounting acquirer** in accordance with the guidance in paragraphs B19 to B22 of SFRS(I) 3. • To apply recognition and measurement requirements of SFRS(I) 3 to the identifiable assets and liabilities of the **accounting acquiree (i.e. the SPAC).** • The consolidated financial statements of the combined entity represent the continuation of the pre-acquisition financial statements of the **accounting acquirer**.
Accounting acquiree – not a business	**Outcome 2: Acquisition of assets** • The cost of the acquisition is allocated to identifiable assets and liabilities **that have been acquired** generally on a relative fair value basis. • No goodwill is recognised. • The pre-acquisition financial statements of the SPAC are included in comparative information.	**Outcome 4: Reverse acquisition of assets** • The cost of the acquisition is allocated to the identifiable assets and liabilities of the **accounting acquiree** generally on a relative fair value basis. • No goodwill is recognised. • The pre-acquisition financial statements of the **accounting acquirer** are included in comparative information of the consolidated financial statements. Note: In March 2013, the IFRS Interpretations Committee (IFRIC) issued an Agenda Decision [25] relating to the accounting for reverse acquisitions that do not constitute a business. In this Agenda Decision, IFRIC confirmed that if the listed entity (i.e. the SPAC) is not a business, the transaction is not a business combination but it might be a share-based payment transaction under IFRS 2. The Target company is deemed to have issued shares to obtain control of the SPAC and to acquire a stock exchange listing.

[25] IFRIC Agenda Decision (March 2013) *Accounting for reverse acquisitions that do not constitute a business* https://www.ifrs.org/content/dam/ifrs/supporting-implementation/agenda-decisions/2013/ifrs-3-march-2013.pdf

(C) Classification of financial instruments after acquisition

The accounting of the shares and warrants in the consolidated financial statements of the combined entity need to be carefully assessed as the accounting is dependent on who is identified as the accounting acquirer.

If the SPAC is the accounting acquirer, judgement is required to determine whether the financial instruments classified as equity are to be de-recognised and re-recognised as liabilities if the equity criteria is not met and whether the financial instruments classified as liability are to be reclassified when the redemption features ceased to be effective.

If the Target company is the accounting acquirer, the financial instruments issued or assumed by the combined entity will be classified according to the principles in SFRS(I)1-32 and, if financial instruments are issued for services rendered, principles in SFRS(I) 2 will apply.

Important note

In October 2022, the IFRS Interpretations Committee (IFRIC) issued an Agenda Decision[26] relating to the accounting of warrants at acquisition. The issue is how a SPAC should classify the founder warrants (referred to as "Promoter Warrants" in this FRG) and public warrants when the target company has been identified and the acquisition is executed. That is, whether the said warrants are within the scope of IAS 32 or IFRS 2.

Based on the fact pattern set out in the Agenda Decision, IFRIC noted that:

- the acquisition of the SPAC is the acquisition of an asset or a group of assets that does not constitute a business
- the entity acquires the SPAC's cash and stock exchange listing service and potentially assuming the SPAC warrants as part of the acquisition.

In assessing whether the entity 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. For example, the entity considers the legal structure of the transaction, the terms and conditions of the SPAC warrants and the new warrants the entity issues. The entity might conclude that the facts and circumstances 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 it has assumed.
b) does not assume the SPAC warrants as part of the acquisition—in this case, the entity issues both ordinary shares and new warrants to acquire the SPAC and does not assume the SPAC warrants.

Additional considerations applicable when an entity concludes that SPAC warrants are assumed as part of the acquisition

Accounting for SPAC warrants assumed as part of the acquisition

- the SPAC's founder shareholders and public investors are not SPAC employees nor will they provide services to the entity after the acquisition. Instead, the SPAC's founder shareholders and public investors hold the SPAC warrants solely in their capacity as owners of the SPAC.
- the entity applies IAS 32 to determine whether the SPAC warrants are financial liabilities or equity instruments

[26] IFRIC Agenda Decision *Special Purpose Acquisition Companies (SPAC): Accounting for warrants at acquisition* https://www.ifrs.org/content/dam/ifrs/supporting-implementation/agenda-decisions/2022/spac-accounting-for-warrants-at-acquisition-oct-2022.pdf

Accounting for replacement of SPAC warrants

- the entity negotiated the replacement of the SPAC warrants as part of the SPAC acquisition, it determines whether it accounts for any of the new warrants it issues as part of that acquisition.
- No IFRS Accounting Standard specifically applies in making this determination. The entity applies Paragraphs 10-11 of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* in developing and applying an accounting policy that results in information that is relevant and reliable.
- To the extent that the entity concludes that it accounts for the new replacement warrants separately, it applies the requirements in IAS 32 and IFRS 9 *Financial Instruments*.

Accounting for stock exchange listing

IFRIC concluded that as the fair value of the financial instruments issued exceeds the fair value of net assets acquired, therefore in applying paragraphs 2 and 13A of IFRS 2, the entity:

- receives a stock exchange listing service for which it has issued equity instruments as part of a share-based payment transaction
- measures the stock listing service received as the difference between the fair value of the financial instruments issued to acquire the SPAC and the fair value of the identifiable net assets acquired

Applicable accounting standards for the instruments issued

Depending on the specific facts and circumstances of the transaction, the entity issues ordinary shares—or ordinary shares and new warrants—in exchange for acquiring cash, for acquiring the stock exchange listing service and for assuming any liability related to the SPAC warrants. IFRIC observed that:

- IAS 32 applies to all financial instruments, with some exceptions. These exceptions include ‘financial instruments, contracts and obligations under share-based payment transactions to which IFRS 2 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)

Therefore, IFRIC concluded that the entity applies:

- IFRS 2 in accounting for instruments issued to acquire the stock exchange listing service
- IAS 32 in accounting for instruments issued to acquire cash and assume any liabilities related to the SPAC warrants—these instruments were not issued to acquire goods or services and are not in the scope of IFRS 2.

For reference: ISCA Financial Reporting Codification Framework

In November 2019, ISCA issued the ISCA Financial Reporting Codification Framework (Framework). The Framework establishes a formalised categorisation, degrees of authority and a due process for future issuance of ISCA's technical documents. It provides credence to ISCA's technical content, promulgates ISCA's views on the application of accounting standards as well as promotes quality, consistency and best practices in financial reporting.

The Framework is summarised in the table below.

Category	Nature	Degree of authority	Due Process	Highest level of approval
1. Financial Reporting Practice (**FRP**)	Recommended best practices for financial reporting for specific industries, sectors or transactions	Expected to apply	Public consultation required	ISCA Council
2. Financial Reporting Guidance (**FRG**)	Technical guidance, views and insights on specific financial reporting issues for specific industries, sectors or transactions	Expected to follow or explain departures	Public consultation required	ISCA Financial Reporting Committee (FRC), with authority delegated by the ISCA Council
3. Financial Reporting Bulletin (**FRB**)	Technical bulletin containing discussions and highlight of emerging topical financial reporting issues	For information and educational purposes	Public consultation not required	ISCA FRC

For more details on the Framework and the guidance issued under the Framework, please refer to the following:

- Framework – https://isca.org.sg/standards-guidance/financial-reporting/due-process/codification-framework
- FRG – https://isca.org.sg/standards-guidance/financial-reporting/technical-guidance-issued-by-isca-technical-division/technical-guidance-issued-under-codification-framework/financial-reporting-guidances
- FRB – https://isca.org.sg/standards-guidance/financial-reporting/technical-guidance-issued-by-isca-technical-division/technical-guidance-issued-under-codification-framework/financial-reporting-bulletins

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