Capital Markets Alert
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SEC Staff Consider SPAC Accounting Guidance Warranted

The staff of the Corporate Finance Division of the Securities and Exchange Commission (SEC) provided guidance regarding accounting treatment of warrants issued by special purpose acquisition companies (SPACs). Warrants are rights to purchase common stock, commonly issued by SPACs in connection with their startup financings or initial public offerings. The statement is the latest in a recent string of staff guidance regarding SPACs. (Read our alerts on the SEC's recent guidance here and here.)

The advice cited two instances of warrant provisions that the staff, applying U.S. generally accepted accounting principles, considered to have delinked the warrants from the value of the underlying common stock, requiring the warrants to be treated as liabilities rather than equity. In one case, the settlement amount of the warrants could vary, depending on the nature of the warrant holder. In the other case, the warrants provided that in certain circumstances involving a tender offer, all warrant holders would be entitled to receive cash in exchange for their securities; but because not all stockholders necessarily would be entitled to receive cash in the tender offer, the warrants must be treated as liabilities.

If warrants are treated as liabilities, changes in the fair value of the warrants would have to be reflected in the income statement for each reporting period. Citing rules relating to restatements of financial statements, the staff suggested that the erroneous accounting for the warrants warranted restatement. In addition, the issuers should reassess the adequacy of their internal controls over financial reporting and disclosure controls and procedures, and should disclose their conclusions in their public reports.

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