IFRS 2 & IAS 32/39: Recognition of Share Purchase Warrants

Excerpt, IFRS Discussion Group Report on Meeting, January 12, 2012

When an entity issues share purchase warrants or other forms of debt or equity securities in a public or private placement, it is common that the entity concurrently issues warrants to the party brokering or underwriting the offering. The terms of the share purchase warrants issued to the brokers or underwriters as consideration for the services provided (broker warrants) may be identical to the terms of the warrants issued to investors.

The issue considered by the Group was whether the broker warrants should be accounted for in accordance with IFRS 2 *Share-based Payment* or in accordance with IAS 32 Financial Instruments: Presentation and IAS 39 *Financial Instruments: Recognition and Measurement*.

Fact Pattern:

• An issuer engages a broker to provide services relating to a public offering of share purchase warrants on the issuer's common shares.

- The shares are priced and sold in Canadian dollars. The issuer's functional currency is US dollars.
- The warrants are required to be settled by the delivery of equity shares.
- The warrants do not have any cash settlement option or any net share settlement option.
- As a form of compensation for services, the broker receives a number of share purchase warrants with terms that are identical to the terms of the warrants that were issued in the offering.

In this fact pattern, are the warrants issued to the broker in the scope of IFRS 2 (*View A*) or IAS 32 and IAS 39 (*View B*)? If the warrants issued to the broker are within the scope of IFRS 2 (*View A*), should measurement subsequent to issuance be within the scope of IFRS 2 (View A1) or IAS 32/39 (*View A2*)?

The Group's Discussion

Group members noted that the broker warrants were issued to the broker for services pertaining to the public offering. Paragraph 2 of IFRS 2 requires an entity to apply IFRS 2 in accounting for all share-based payment transactions, including transactions in which the entity receives services, with only a few exceptions. Group members noted that the broker warrants in the above fact pattern do not meet the requirements for those exceptions.

Similarly, Group members noted that the scope requirements in paragraph 4(f) of IAS 32 exclude share-based payment transactions to which IFRS 2 applies, with the same few exceptions that the broker warrants do not meet.

Source: www.frascanada.ca/ifrs-discussion-group

Several Group members noted that, based on a close reading of those scope provisions in IFRS 2 and IAS 32, the broker warrants in the above fact pattern are clearly in the scope of IFRS 2 and some questioned why an issue arises. Some Group members explained that, despite the clarity of the IFRSs, this issue arises in practice because some may inadvertently account for the broker warrants in the same manner as the warrants issued in the public offering. Those warrants have the same terms as the warrants issued in the public offering and represent only a small subset of the larger issuance of warrants. However, such a conclusion would not take into account that IFRS 2 applies to the broker warrants.

Also, Group members observed that this issue arises in practice, in part, because the consequences relating to the “fixed for fixed” requirements in IAS 32 may drive a substantively different accounting result for the warrants issued in the offering and the warrants issued for services to the broker. Although Group members acknowledged this difference may be surprising, there was no support for the argument that the broker warrants should be classified as a financial instrument (i.e., *View B*) to eliminate the potential difference in measurement bases that would arise if the broker warrants were determined to be within the scope of IFRS 2.

Group members noted that subsequent measurement of the broker warrants is within the scope of IFRS 2 (i.e., View A1), at least until the warrants vest. Some diversity in views was expressed on whether the accounting treatment for the vested warrants is within IFRS 2 or IAS 39. This difference in views was not explored further.

The Group concluded that this issue should not be brought to the attention of the IFRS Interpretations Committee because significantly divergent interpretations are not expected to emerge in practice.