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SEC statement on accounting treatment of SPAC warrants to impact capital markets activity

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This week, the staff of the SEC issued a statement expressing a view that, despite the widespread practice to the contrary, most warrants issued in connection with a SPAC transaction should be accounted for as liabilities, rather than equity instruments, of the company. As a result, existing SPACs (and public companies that merged with SPACs) may need to restate their financial statements (and amend any corresponding periodic reports) if they conclude that the reclassification of existing warrants as liabilities would have a material impact on their financial statements. This pronouncement has already caused a pause in offerings by SPACs and former SPACs, as well as in the completion of SPAC mergers with private companies, as the SEC staff statement will not permit these offerings to progress until an analysis is complete and any required restatement is made.

If you have any questions regarding the matters covered in this publication, please reach out to any of the lawyers listed below or your usual Davis Polk contact.

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