



MALAYSIAN INSTITUTE  
OF ACCOUNTANTS  
ACCOUNTANTS: MANAGERS OF VALUE

PROUD HOST:



World Congress  
of Accountants 2010

[www.wcoa2010kualalumpur.com](http://www.wcoa2010kualalumpur.com)

## FINANCIAL REPORTING STANDARDS IMPLEMENTATION COMMITTEE

### **FRSIC Consensus 9**

#### ***Accounting for Rights Issue with Free Warrants***

##### **Introduction**

FRSIC Consensus 9 “Accounting for Rights Issue with Free Warrants” was developed by the Financial Reporting Standards Implementation Committee (“FRSIC”) and issued by the Malaysian Institute of Accountants (“MIA” or “Institute”) on 31 July 2008.

The Consensus contained herein is issued as part of the Institute’s initiatives to promote best practices in compliance with the highest standards in financial accounting.

**FRSIC CONSENSUS 9****ACCOUNTING FOR RIGHTS ISSUE WITH FREE WARRANTS**

FRSIC Consensus is guidance issued by MIA and shall be regarded as best practice. It should be read in conjunction with the respective applicable accounting standards.

Members of MIA are expected to observe compliance to the consensus issued. In exceptional circumstances where departure is necessary, members shall be prepared to justify the departure.

FRSIC Consensus need not be applied to immaterial items. Nothing in the FRSIC Consensus is to be construed as amending or overriding the accounting standards or other statements adopted or issued by the MASB and other relevant laws.

**The Issue**

1. An entity may undertake a rights issue exercise to its existing shareholders and offers warrants for each ordinary share taken up.
2. For example, an issuer undertook a rights issue exercise to its existing shareholders. The Shareholder pays a lump sum amount for one new ordinary share plus one free warrant. The warrant is normally detachable and will be listed on the stock exchange.
3. The issue is whether a value should be allocated to the free warrants.

**Consensus and Basis of Consensus**

4. From the investor's perspective, the investor is actually paying a lump sum amount for investment in two types of financial assets i.e. ordinary shares and warrants in the issuer company. Under IAS 39.43, financial asset is recognized initially at its fair value. The investor would therefore recognise both the investment in ordinary shares and the investment in warrants at their respective fair values.

5. From the issuer's perspective, not assigning any value, where there is a value to the warrants [because it was given free] would not represent faithfully the transaction or event that it purports to represent. The economic substance of the transaction is that the issuer received a lump sum for the issuance of two types of equity instruments. Both types of equity instruments normally have values. For ordinary shares and warrants that are/will be listed on the stock exchange, their fair values are reliably and readily available.
6. FRSIC noted that the exercise of assigning a value to the free warrant is merely a reallocation of value within equity. Essentially, it is imperative to ask whether such exercise would produce information which is useful to the users of the financial statements. FRSIC studied situations where the free warrant offered is one that is quoted in the market. The quoted warrant, which is given free pursuant to a right issue exercise, normally has a value attached to it. Therefore, FRSIC considered the value of the free warrant is useful to the users of the financial statements to make informed decision.
7. FRSIC is aware that although the two types of instruments are both equity instruments, the Ninth Schedule of the Companies Act 1965 requires issued capital, share capital, share premium account, revaluation surplus, balance of profit and loss account; and other reserves to be presented under separate headings. Warrants are not issued capital or share premium and accordingly should be under a separate heading. If the proceeds received are not allocated to the two types of equity instruments, the recorded amount of issued share capital, share premium and warrant reserves could be misstated.
8. FRSIC further referred to the Framework for the Preparation and Presentation of Financial Statements which requires information to represent faithfully the transaction or event that it purports to represent and the necessity to account and present the transaction in accordance with the substance and economic reality and not merely the legal form.
9. Based on the above, FRSIC recommends as a best practice, to account for the free warrants in accordance with the substance and economic reality of the transaction and not merely in accordance with its legal form. Accordingly, a value could be assigned to the warrants. The proceeds received by the issuer could be allocated to the two types of equity instruments using a reasonable and an appropriate method of allocation. For best practice, disclosure of the method used is encouraged.
10. At the point where the exercise period of the warrant lapsed and the warrant remains unexercised, the warrant amount remains in equity, although it may be transferred from one line item within equity to another.

**Issuance Date of this Consensus**

11. This Consensus is issued on July 31, 2008.

**References**

Companies Act, 1965

IAS 39 "Financial Instruments: Recognition and Measurement"

Framework for the Preparation and Presentation of Financial Statements