17 September 2012

Wayne Upton
Chair
IFRS Interpretations Committee
30 Cannon Street
London, EC4M 6XH

Additional comments on Agenda paper 15 of IFRS IC meeting in September

Dear Chair Wayne Upton:

On behalf of the KASB, I am writing this letter to comment on Agenda paper 15 'Accounting for reverse acquisition transactions where the acquiree is not a business' discussed at the IFRS IC meeting in September. The paper deals with our request to provide guidance to account for the transaction.

After analyzing the paper, we have found some points that were overlooked. It could be largely divided into the following two issues.

To begin with, the staff did not fully consider the reason for executing a SPAC merger transaction.
According to the staff paper, the staff believes that the nature of the transaction is to obtain a 'listing status' and thus it is a service acquired in accordance with IFRS 2 in substance ('View B'). On the other hand, the staff did not agree with the view ('View C') that the transaction is in substance a capital transaction where a non-listed operating entity obtains a recapitalization. Paragraph 60 in the paper states that:

> *'However, <u>we think that this approach would reflect the view that the transaction is in substance, a capital transaction where Entity B/B1 obtains a recapitalisation (ie a change of its capital structure) and we disagree with this view</u>. As we have mentioned, <u>the objective of the transactions described is for Entity B/B1 to acquire a listing status.</u> In our view, the excess deemed to have been paid by Entity B/B1 represents in substance a service that the accounting acquirer is deemed to have paid to obtain a listing status.'*

However, there is no reasonable evidence to support View B in the paper, even though the SPAC merger transactions have both purposes to obtain a 'listing status' and raise 'capital'. Therefore, we believe that the staff overlooked the objective of a SPAC merger transaction in relation to the perspective of a capital transaction without any considerations.
Furthermore, in the staff recommendation of this paper, the excess identified between the consideration received and transferred is recognized as 'expenses'. This does not reflect the economic substance, especially in our jurisdiction. Paragraph 13 in Appendix B in the paper states the reason as follows:

> *'Furthermore, according to the defined terms and paragraph 11 of IFRS 2, Entity B shall measure the fair value of the shares at grant date. The date could be interpreted as approval date by meeting of shareholders when the merger arrangement is subject to an approval process by shareholders. <u>In this case, the period of time between the date of merger arrangement and the date of approval would typically be four to five months in Korea</u>. <u>This could result in greater volatility in stock prices and a considerable amount of expenses recognized.</u>*

Below are the cases that occurred during 2011 in Korea.

<Unit: thousand of US dollars>

Cases	Company A	Company B	Company C
A. Net assets acquired (Consideration received)	18,923	23,800	19,916
B. Consideration Transferred (equity instruments fair value)	19,986	28,125	32,519
(A-B=C). The excess identified between the consideration received and transferred that was <u>recognized as 'expenses'</u>	(-) 1,063	(-) 4,325	(-)12,603
D. Net income	1,130	1,576	(-)3,115
<u>**(D-C)** Net income excluding the excess amounts recognized as 'expenses'</u>	2,193	5,901	9,488

The cases show that the stock price of the company which has a superior financial position and good profitability is highly appreciated in the market and thus if a SPAC merges a company similar to Company C, the amount of expenses recognized would increase. In the case of Company C, we do not believe that Company C paid USD 12,603,000 to obtain the status of listing. This would make the users of the financial statements of Company C confused. The reason is that even though Company C is a profitable company in substance, the users of the financial statements of Company C could misunderstand the financial position of Company C due to the large net loss which includes the recognized 'expenses' of the excess identified between the consideration received and transferred.

I appreciate your consideration in advance, and I hope it helps you and the staff member, Denise Durant, understand our concerns with respect to the agenda paper.

Please do not hesitate to contact me if you have any questions or comments about my inquiry. You may direct your inquiries either to me (suklim@kasb.or.kr) or to Woung-hee Lee (leewh@kasb.or.kr), Technical Manager of KASB.

Yours sincerely,

Suk S Lim

Suk-Sig (Steve) Lim
Chair, Korea Accounting Standards Board

Cc: Sungsoo Kwon, Research Fellow of Research Department