



STAFF PAPER

June 2022

IFRS® Interpretations Committee meeting

Project	Special Purpose Acquisition Companies (SPAC): Classification of Public Shares as Financial Liabilities or Equity (IAS 32)	
Paper topic	Comment letters on tentative agenda decision	
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Introduction

1. In March 2022, the IFRS Interpretations Committee (Committee) published a [tentative agenda decision](#) in response to a submission asking whether a Special Purpose Acquisition Company (SPAC), in applying IAS 32 *Financial Instruments: Presentation*, classifies public shares it issues as financial liabilities or equity instruments. A SPAC is a listed entity that is established to acquire a yet to be identified target entity.
2. The request described a SPAC that issues two classes of shares: founder shares (Class A) and public shares (Class B). The Class B shareholders:
 - (a) individually have the contractual right to demand a reimbursement of their shares if the SPAC's shareholders approve the acquisition of a target entity.
 - (b) are reimbursed if the SPAC is liquidated. The SPAC is liquidated if no target entity is acquired within a specified period.
 - (c) along with the Class A shareholders, have the contractual right to extend the SPAC's life beyond that specified period if no target entity is acquired.

Extension of the SPAC's life is approved by either (i) two-thirds of the shareholders; or (ii) two-thirds of the Class A shareholders and two-thirds of the Class B shareholders independently.

3. The request asked about the effect of the shareholders' contractual right to extend the SPAC's life on the classification of the Class B shares—in particular, whether the decision of shareholders to extend the SPAC's life is considered to be within the control of the SPAC. This assessment is needed to determine whether the SPAC has the unconditional right to avoid delivering cash or another financial asset to settle a contractual obligation.
4. In analysing the submission, the Committee observed that:
 - (a) IAS 32 contains no requirements for assessing whether a decision of shareholders is treated as a decision of the entity;
 - (b) similar questions about shareholder decisions arise in other circumstances; and
 - (c) assessing whether a decision of shareholders is treated as a decision of the entity has been identified as one of the practice issues the IASB will consider in its *Financial Instruments with Characteristics of Equity* (FICE) project.
5. Based on its analysis, the Committee concluded that the matter described in the submission is, in isolation, too narrow for the IASB or the Committee to address in a cost-effective manner. Instead, the IASB should consider the matter as part of its broader discussions on the FICE project. For these reasons, the Committee tentatively decided not to add a standard-setting project to the work plan and, instead, published the [tentative agenda decision](#).
6. The objectives of this paper are to:
 - (a) [analyse comments](#) on the tentative agenda decision (paragraphs 9-13); and
 - (b) [ask the Committee](#) whether it agrees with our recommendation to finalise the agenda decision (paragraph 14).

7. Appendix A to the paper contains the proposed wording of the agenda decision.
8. Agenda Paper 5A for this meeting reproduces the comment letters.

Comment letter summary

9. We received 9 comment letters by the comment letter deadline. All comments received, including any late comment letters, are available on our website¹. This agenda paper includes analysis of only the comment letters received by the comment letter deadline, which are reproduced in Agenda Paper 5A.
10. Seven respondents (the Accounting Standards Committee of Germany [ASCG], the Malaysian Accounting Standards Board, the Saudi Organization for Chartered and Professional Accountants, the Accounting Standards Board of the Institute of Chartered Accountants of India, David Hardidge, Mazars and Deloitte) agree with the Committee's decision not to add a standard-setting project to the work plan broadly for the reasons set out in the tentative agenda decision.
11. Two respondents (Chartered Accountants Academy and Training and Advisory Services (joint respondent) and the Public Accountants and Auditors Board [PAAB] (Zimbabwe)) agree (or do not disagree) with the Committee's decision not to add a standard-setting project to the work plan, including that the IASB should consider the matter as part of its

¹ At the date of posting this agenda paper, there were no late comment letters.

broader discussions on the FICE project. However, they provide additional comments on how, in their view, IAS 32 is applied to classify the Class B shares issued by the SPAC.

12. Further details about other matters raised by these respondents, together with our analysis, is presented below.

Staff analysis

13. The following table summarises respondents’ comments on other matters together with our analysis of these comments.

Respondents’ comments	Staff analysis
<p>The ASCG note that any matter being deferred to the FICE project (as has been repeatedly the case in the past) leads to a delayed answer or none at all. While they acknowledge this allows for comprehensive consideration of those matters, which would be beneficial, they think the respective matter(s) often will not be solved in a timely manner, which is rather detrimental to accounting.</p>	<p>The Committee observed that IAS 32 contains no requirements for assessing whether a decision of shareholders is treated as a decision of the entity and that the matter cannot be resolved efficiently within the confines of the existing Accounting Standards and the <i>Conceptual Framework</i>. We acknowledge the ASCG’s concerns about timing. However, the IASB has already made progress on this matter as part of the FICE project².</p>
<p>Deloitte is concerned with the statement in the tentative agenda decision that “IAS 32 contains no requirements for assessing</p>	<p>We continue to agree with the Committee’s observation that IAS 32 contains no requirements for assessing whether a</p>

² [Agenda Paper 5B](#) was discussed at the February 2022 IASB meeting.

<p>whether a decision of shareholders is treated as a decision of the entity”. In particular, they are concerned that this could be interpreted to mean that there is no requirement to make the assessment, as opposed to no requirements on how to make the assessment. They suggest removing this sentence as they think it is clear from the remainder of the paragraph that assessing whether a decision of shareholders is treated as a decision of the entity is required and that this will be considered as part of the FICE project.</p>	<p>decision of shareholders is treated as a decision of the entity. However, we acknowledge that this wording could be read to imply there is no requirement to make the assessment. We suggest changing the sentence to clarify that IAS 32 contains no requirements on <i>how to assess</i> whether a decision of shareholders is treated as a decision of the entity.</p>
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Staff recommendation

14. Based on our analysis, we recommend finalising the agenda decision, as published in the IFRIC Update in March 2022, with changes to the tentative agenda decision as suggested in Appendix A to this paper. If the Committee agrees with our recommendation, we will ask the IASB whether it objects to the agenda decision at the first IASB meeting at which it is practicable to present the agenda decision.

Questions for the Committee

1. Does the Committee agree with our recommendation to finalise the agenda decision as explained in paragraph 14 of this paper?
2. Do Committee members have any comments on the wording of the agenda decision in Appendix A?

Appendix A—proposed wording of the agenda decision

A1. We propose the following wording for the final agenda decision (new text is underlined, and deleted text is struck through)

Special Purpose Acquisition Companies (SPAC): Classification of Public Shares as Financial Liabilities or Equity (IAS 32 *Financial Instruments: Presentation*)

The Committee received a request about ~~whether applying IAS 32 in relation to the classification of shares issued by a special purpose acquisition company (SPAC), in~~ applying IAS 32, classifies public shares it issues as financial liabilities or equity instruments. A SPAC is a listed entity that is established to acquire a yet to be identified target entity.

The request described a SPAC that issues two classes of shares: founder shares (Class A) and public shares (Class B). The Class B shareholders:

- (a) individually have the contractual right to demand a reimbursement of their shares if the SPAC's shareholders approve the acquisition of a target entity.
- (b) are reimbursed if the SPAC is liquidated. The SPAC is liquidated if no target entity is acquired within a specified period.
- (c) along with the Class A shareholders, have the contractual right to extend the SPAC's life beyond that specified period if no target entity is acquired. ~~Extension of the SPAC's life is approved by either (i) two-thirds of the shareholders; or (ii) two-thirds of the Class A shareholders and two-thirds of the Class B shareholders independently.~~

The request asked about the effect of the shareholders' contractual right to extend the SPAC's life on the classification of the Class B shares—in particular, whether the decision of shareholders to extend the SPAC's life is considered to be within the control of the

SPAC. This assessment is needed to determine whether the SPAC has the unconditional right to avoid delivering cash or another financial asset to settle a contractual obligation.

The Committee observed that IAS 32 contains no requirements on how to assess ~~for assessing~~ whether a decision of shareholders is treated as a decision of the entity. The Committee acknowledged that similar questions about shareholder decisions arise in other circumstances. Assessing whether a decision of shareholders is treated as a decision of the entity has been identified as one of the practice issues the International Accounting Standards Board (IASB) will consider ~~address~~ in its *Financial Instruments with Characteristics of Equity* (FICE) project. The Committee concluded that the matter described in the request is, in isolation, too narrow for the IASB or the Committee to address in a cost-effective manner. Instead, the IASB should consider the matter as part of its broader discussions on the FICE project. For these reasons, the Committee ~~decided~~ not to add a standard-setting project to the work plan. The Committee nonetheless noted the importance of the SPAC disclosing information in the notes to its financial statements about the classification of its public shares.