



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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This paper has been prepared for discussion at a public meeting of the IFRS Interpretations Committee (Committee). This paper does not represent the views of the International Accounting Standards Board (IASB), the Committee or any individual member of the IASB or the Committee. Any comments in the paper do not purport to set out what would be an acceptable or unacceptable application of IFRS® Accounting Standards. The IASB's technical decisions are made in public and are reported in the IASB® *Update*. The Committee's technical decisions are made in public and are reported in the IFRIC® *Update*.

Introduction

1. This paper reproduces comment letters on the IFRS Interpretations Committee's tentative agenda decision 'Special Purpose Acquisition Companies (SPAC): Classification of Public Shares as Financial Liabilities or Equity (IAS 32)' published in March 2022.

Bruce Mackenzie
Chair of the IFRS Interpretations Committee
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London E14 4HD

**Financial Reporting Technical
Committee**

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E-Mail: info@drsc.de

Berlin, 17 May 2022

Dear Bruce,

IFRS IC's tentative agenda decisions in its March 2022 meeting

On behalf of the Accounting Standards Committee of Germany (ASCG), I am writing to comment on the tentative agenda decisions taken by the IFRS IC as published in the March 2022 *IFRIC Update*.

As regards the **tentative agenda decision on IAS 32**, we basically agree with the IFRS IC's findings. However, we acknowledge that the issue comprises a more general and broadly relevant question, whether an action (or a decision) of the shareholders, e.g. at a shareholders meeting, is an action (or a decision) of the entity. This question seems crucial and, as mentioned in the *IFRIC Update*, arises equally in other circumstances. Therefore, it deserves a timely answer.

Overall, we like to 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 this allows for comprehensive consideration of those issues, which – on its own – would be beneficial, the respective issue(s) often will not be solved in a timely manner, which is rather detrimental to accounting.

Regarding the **tentative agenda decision on IFRS 2 / IFRS 3 / IAS 32**, we do not fully support the findings and reasoning behind the decision. While the conclusions on who is the acquirer and whether the acquisition constitutes a business appear appropriate, two other findings do not seem intuitive.

Firstly, the idea of splitting the acquisition and allocating the shares and the warrants to the individual assets/liabilities acquired does not appear evident. Further, while the IFRS application and outcomes as regards accounting/measurement at the acquisition date are broadly

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explained, we acknowledge that further questions as regards subsequent measurement could arise – on which the decision’s wording is silent.

Secondly, the finding that considering the legal structure of the acquisition might lead to the conclusion that the acquirer (i) assumes the SPAC warrants or (ii) does not assume the SPAC warrants opens up room for judgement. We understand that the IFRS IC does not suggest which of the two conclusions applies to the fact pattern submitted, nor does the IFRS IC provide further details on how to appropriately conclude on this question more generally. Overall, we feel that the decision and the respective wording do not add to clarity or to consistent application.

As regards the **tentative agenda decision on IFRS 16** (in respect of the lessor), the decision and the reasons behind do not appear fully comprehensible. More generally, this issue again touches on the interaction of modification vs. impairment vs. write-off vs. derecognition, which still awaits clarification. (We refer to our respective comments in our comment letter, dated 28 January 2022, to the PIR on IFRS 9 / classification and measurement.) It seems worth integrating and discussing this complex issue comprehensively within the next PIR on IFRS 9 / section “Impairment”.

As regards the **tentative agenda decision on IFRS 17**, we agree with the conclusions of the IFRS IC on the technical matters, in particular with the general finding that IFRS 17.B119 contains a principle without prescribing particular methods for determining the quantity of benefits.

In addition, we like to note that this tentative agenda decision is taken close to the date of initial application of IFRS 17. While we do not generally object to solving application issues even close to initial application, we have been made aware of concerns by insurance entities in respect of this particular case.

Due to the complexity of IFRS 17, accompanied by a parallel run of IFRS 4 / IAS 39 and IFRS 17 / IFRS 9 throughout 2022, these entities are currently in a crucial period of implementation and facing a high workload. Hence, for these entities it might be impracticable to implement further changes before the effective date of IFRS 17 that derive from an agenda decision. This said, we suggest that the IFRS IC thoroughly discusses, and potentially clarifies, how the principle “sufficient time” to implement applies in the respective context. Further, we kindly ask the IFRS IC to carefully consider which steps it undertakes in responding to a submission that affects IFRS requirements right before initial application.

We would like to add more generally that IFRS IC deliberations on new or just amended IFRS requirements come along with an additional challenge: The agenda decisions do not only affect the crucial implementation period, but there is also only limited accounting practice yet (be it predominance or diversity) which can be considered and analysed. Therefore, we urge the IFRS IC to carefully consider the due process it undertakes in responding to those submissions



as it may have a significant impact for entities during the implementation period if accounting policies need to be changed.

In the specific case of IFRS 17 the IFRS IC due process might benefit, inter alia, from input from the Transition Resource Group (TRG) as one of the ways the IASB is supporting implementation of the new standard by providing a public forum for stakeholders to follow the discussion of questions raised on implementation.

If you would like to discuss our views further, please do not hesitate to contact Jan-Velten Große (grosse@drsc.de) or me.

Yours sincerely,

Sven Morich

Vice President

23 May 2022

Mr. Bruce Mackenzie
Chair
IFRS Interpretations Committee
Columbus Building
7 Westferry Circus
Canary Wharf
London E14 4HD
United Kingdom

Dear Mr. Mackenzie,

IFRS Interpretations Committee Tentative Agenda Decisions

The Malaysian Accounting Standards Board (MASB) welcomes the opportunity to provide comment on the following Tentative Agenda Decisions:

- (a) Lessor Forgiveness of Lease Payments (IFRS 9 *Financial Instruments* and IFRS 16 *Leases*)
- (b) Special Purpose Acquisition Companies (SPAC): Accounting for Warrants at Acquisition
- (c) Special Purpose Acquisition Companies (SPAC): Classification of Public Shares as Financial Liabilities or Equity (IAS 32 *Financial Instruments: Presentation*)
- (d) Transfer of Insurance Coverage under a Group of Annuity Contracts (IFRS 17 *Insurance Contracts*)

We agree with the IFRS Interpretations Committee's reasons set out in the Tentative Agenda Decisions for not adding a standard-setting project to its work plan based on the specific fact patterns described in the Tentative Agenda Decisions.

If you need further clarification or have any queries regarding this letter, please contact the undersigned by email at beeleng@masb.org.my or at +603 2273 3100.

Thank you.

Yours sincerely,



TAN BEE LENG
Executive Director

May 22, 2022

IFRS Foundation
7 Westferry Circus,
Canary Wharf
London E14 4HD,
United Kingdom

SOCPA Comments on *Tentative Agenda Decision, Special Purpose Acquisition Companies (SPAC): Classification of Public Shares as Financial Liabilities or Equity (AS 32)*

Dear Colleagues,

The Saudi Organization for Chartered and Professional Accountants (SOCPA) appreciates the efforts of the IFRS Interpretations Committee (Committee) and welcomes the opportunity to comment on the *Tentative Agenda Decision, Special Purpose Acquisition Companies (SPAC): Classification of Public Shares as Financial Liabilities or Equity (AS 32)*.

Overall, we support the IFRS IC's conclusion not to add a standard-setting project to the work plan. Instead, publishing a tentative agenda decision that explains that the matter: (a) is too narrow for the Committee to consider in isolation because it is a part of a broader practice issue; (b) cannot be resolved efficiently within the confines of the existing Accounting Standards and the Conceptual Framework; and (c) is better suited to be addressed as part of the IASB's Financial Instruments with Characteristics of Equity (FICE) project.

However, although IAS 32 does not state any principles for assessing whether a decision by the shareholders should be considered as a decision of the entity, or if the decision should be deemed to be beyond the control of the entity, it is understood that the entity's decisions may need the approval by the general assembly according to the bylaw of the entity or according to laws and regulations of the jurisdiction.

The Conceptual Framework paragraph 3.8 states:

“Financial statements provide information about transactions and other events viewed from the perspective of the reporting entity as a whole, not from the perspective of any particular group of the entity's existing or potential investors, lenders or other creditors.”

While this paragraph does not clarify whether a decision by the shareholders should be considered as a decision of the entity or if the decision should be deemed to be beyond the control of the entity, it highlights those existing investors (shareholders) and the entity can have different perspectives for the same transaction.

SOCPA therefore believes since there is no implicit or explicit principle underpinning the basis of deciding whether a decision by the shareholders should be considered as a decision of the entity, the FICE project should build on the above paragraph in the Conceptual Framework to clarify that there would be instances in which a decision by the shareholders should be considered as a decision of the entity and there will be instances a decision should be deemed to be beyond the control of the entity.

Example: It could consider shareholders' decisions that have effects on the assets and liabilities of the entity as decisions of the entity, where those decisions that have no effect on the entity's

assets and liabilities could be considered as decisions of the shareholders; examples of the latter are changing in the voting rights of a class of share or establishing a new class of shares.

Please feel free to contact Dr. Abdulrahman Alrazeen at (razeena@socpa.org.sa) for any clarification or further information.

Sincerely,



Dr. Ahmad Almeghames
Chief Executive Officer



Tentative Agenda Decision and comment letters: Special Purpose
Acquisition Companies (SPAC): Classification of Public Shares as
Financial Liabilities or Equity (IAS 32)

Response from the Public Accountants and Auditors Board (PAAB), Zimbabwe

23 May 2022

The Public Accountants and Auditors Board (PAAB), Zimbabwe, was established by section 4 of the Public Accountants and Auditors Act, 1995 (as amended) (the Act). Public accountants (public auditors) are defined in the Act as any person registered by the PAAB to provide public accountancy services (public audit services) to any person, including a public company or statutory body. PAAB is the National Standards Setter in Zimbabwe responsible for endorsing and adopting international accounting standards, international standards on auditing and international public sector accounting standards when they meet certain criteria for prescription by statutory regulation by PAAB in accordance with section 44(2)(a) of the Act. PAAB is responsible for defining and enforcing ethical practice and discipline among registered public accountants and public auditors and setting Ethics standards (section 5(1)(d) of the Act); and representing the views of the accountancy profession on national, regional and international issues (section 5(1)(g) of the Act). PAAB also plays a role in accountancy-specific education (section 5(1)(h) of the Act).

Further information about PAAB can be obtained at www.paab.org.zw

Any questions arising from this submission should be directed to:

Admire Ndurunduru

Secretary

Public Accountants and Auditors Board

72 Harare Drive

Mount Pleasant

Harare

Zimbabwe

Elles Mukunyadze

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Public Accountants and Auditors Board

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Our ref: Classification of Public Shares as Financial Liabilities or Equity (IAS 32)

We agree with the conclusion that the specific request is too narrow and specific to be dealt with by the IASB or IFRIC. In general the issue of assessing whether a decision of shareholders is treated as a decision of the entity needs more guidance and we look forward to the proposal on this issue by the IASB. However based on the current guidance in the standards, our assessment of the issue is as follows.

- It is generally accepted that in common company structures (public or private companies) the shareholder and the entities are treated as two separate entities and there is law that guide what decision the shareholder can make and how.
- The day to day running of the company is done by the Board of Directors which takes responsibility on the key operational and financial decisions to be made by the entity.
- In assessing whether an arrangement is a financial liability or equity, IAS 32 para 16 *When an issuer applies the definitions in paragraph 11 to determine whether a financial instrument is an equity instrument rather than a financial liability, the instrument is an equity instrument if, and only if, both conditions (a) and (b) below are met.*

(a) The instrument includes no contractual obligation:

- (i) to deliver cash or another financial asset to another entity; or*
 - (ii) to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the issuer.*
- Where a shareholder has a right to make a decision that will result in a contractual obligation to deliver cash or another financial asset by the entity, then the instrument will not meet the definition of an equity instrument but rather a financial liability
 - The decision to extend the life of the SPAC is not within the control of the SPAC but shareholders thus the SPAC does not have unconditional right to avoid paying cash.



IFRS Foundation
Columbus Building, 7 West ferry Circus
Canary Wharf, London E14 4HD
United Kingdom

23 May 2022

Dear Sir/Madam,

**Chartered Accountants Academy (CAA) and Training and Advisory Services (TAS)
Submission - Commentary on Exposure Draft ED/2022/5 on Special Purpose Acquisition
Companies (SPAC): Classification of Public Shares as Financial Liabilities or Equity (IAS 32)**

In response to your request for comments on Exposure Draft ED/2022/5, attached is the comment letter prepared by Chartered Accountants Academy and Training & Advisory Services. The comment letter is a result of deliberations of members of CAA and TAS which comprises chartered accountants who have experience in Auditing, IFRS, IPSAS and Academics in Zimbabwe.

We are grateful for the opportunity to provide our comments on this project.

Please do not hesitate to contact us should you wish to discuss any of our comments.

Nyasha Chakuma
Project Director

Webster Sigauke
Project Director

Project team:

Fadzai Busu

Chris Munodawafa

Zvikomborero Masuka

Our comments are as follows:

Tentative Agenda Decision and comment letters: Special Purpose Acquisition Companies (SPAC): Classification of Public Shares as Financial Liabilities or Equity (IAS 32)

The Committee received a request about applying IAS 32 on the classification of shares issued by a special purpose acquisition company (SPAC) as financial liabilities or equity. 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 (Class A and 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 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 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 cost-effectively. 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.

Question 1 – How IAS 32 is applied pertaining to the classification of shares issued by a special purpose acquisition company (SPAC) as financial liabilities or equity

Response:

IAS 32.11 defines a financial liability as any liability that is a contractual obligation to deliver cash or another financial asset to another entity whilst an equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities.

The Class 'B' shares have a right to demand reimbursement if a target is acquired/SPAC is liquidated. However, shareholders can also elect to extend the SPAC's life if no target is acquired but this is not indefinitely and thus the obligation to pay cash or exchange a financial asset will still exist therefore the Class B shares are financial liabilities.

Question 2 – the effect of the shareholders' contractual right to extend the SPAC's life on the classification of the Class B shares

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 within the control of the SPAC.

Response

- (a) IAS 32.25 includes requirements on classifying a financial instrument as a financial liability when the occurrence or non-occurrence of uncertain future events that are beyond the control of both the issuer and the holder require the entity to deliver cash or another financial asset. If an extension is not considered to be within the

control of the SPAC, the class 'B' shares will be financial liabilities as they have a contractual right to reimbursement.

- (b) When the decision is within the control of the SPAC, it does not have a contractual right to pay cash for the extension period and thus can classify the shares as equity instruments, on the end of the extension, the SPAC can reassess the substance of the shares and reclassify if there is a need as the SPAC will not have an infinite life.

Date: May 23, 2022

Mr. Bruce Mackenzie,
Chair, IFRS Interpretations Committee,
IFRS Foundation
Columbus Building,
7 Westferry Circus, Canary Wharf,
London E14 4HD,
United Kingdom

Dear Bruce,

Subject: Comments of the Institute of Chartered Accountants of India on Tentative Agenda Decision (TAD) issued by IFRS Interpretations Committee (IFRS IC) on Special Purpose Acquisition Companies (SPAC): Classification of Public Shares as Financial Liabilities or Equity (IAS 32)

The Accounting Standards Board (ASB) of the Institute of Chartered Accountants of India (the ICAI) welcomes the opportunity to comment on above referred Tentative Agenda Decision of IFRS Interpretations Committee.

In this regard, we agree with the analysis in the tentative agenda decision. We acknowledge that assessment of whether a decision of shareholders is treated as a decision of the entity may arise in other circumstances also apart from the instant case. Therefore, guidance on the matter may be taken up as broader discussions on the FICE project.

With kind regards,

CA. Pramod Jain
Chairman,
Accounting Standards Board
Institute of Chartered Accountants of India

PO Box 1411
Beenleigh QLD 4207
23 May 2022

Mr Bruce Mackenzie
Chair IFRS Interpretations Committee
International Accounting Standards Board
Columbus Building, 7 Westferry Circus
Canary Wharf
London E14 4HD
United Kingdom

Online submission: <https://www.ifrs.org/projects/work-plan/spac-classification-of-public-shared-as-financial-liabilities-or-equity-ias-32/>

Dear Bruce

Tentative agenda decision - SPAC - Classification of Public Shares as Financial Liabilities or Equity (IAS32)

I am pleased to make this submission on the above Tentative Agenda Decision (TAD) relating to SPAC - Classification of Public Shares as Financial Liabilities or Equity (IAS 32).

I have extensive experience in accounting advice on International Financial Reporting Standards across a wide range of clients, industries and issues in the for-profit, not-for-profit, private and public sectors.

My clients have included listed companies, unlisted and private companies, charitable and not-for-profit organisations, federal, state and local government departments and agencies in the public sector, and government owned corporations (government business enterprises). I also have some commercial, standard setting and academic experience.

Overall

I agree with the decision of the IFRS Interpretations Committee to pursue standard setting.

In particular, assessing whether a decision of shareholders is treated as a decision of the entity applies in other circumstances, such as convertible notes, and that there is diversity in treatment amongst the large accounting firms.

Yours sincerely,

David Hardidge
<https://www.linkedin.com/in/davidhardidge/>

Mr Bruce Mackenzie

IFRS Interpretations Committee

*Columbus Building,
7 Westferry Circus, Canary Wharf
London E14 4HD
United Kingdom*

La Défense, 23 May 2022

Tentative Agenda Decisions – IFRIC Update March 2022

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

Dear Bruce,

MAZARS is pleased to comment on the abovementioned IFRS Interpretations Committee Tentative Agenda Decision, published in the March 2022 IFRIC Update.

We agree with the Interpretations Committee tentative decision that this topic should be addressed in the context of the broader IASB FICE project. Indeed, assessing whether a shareholder decision is treated as a decision of the entity or not is a complex matter with potentially significant consequences on a wide range of situations. Considering this issue within the context of the FICE project is the best way to minimise the risk of unintended consequences.

We however encourage the Committee to make clear in its agenda decision the importance of providing disclosures on the characteristics of these SPAC Shares and the classification retained by the entity.

Should you have any questions regarding our comments on the tentative agenda decisions, please do not hesitate to contact Edouard Fossat (+33 1 49 97 65 92).

Yours sincerely,

A handwritten signature in blue ink, appearing to read 'm. barbet-massin' with a stylized flourish at the end.

Michel Barbet-Massin

Financial Reporting Technical Support

A handwritten signature in black ink, appearing to read 'E. Fossat' with a stylized flourish at the end.

Edouard Fossat

23 May 2022

Bruce Mackenzie
Chair
IFRS Interpretations Committee
Columbus Building
7 Westferry Circus
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London
United Kingdom

Dear Mr Mackenzie

Tentative agenda decision – Special Purpose Acquisition Companies (SPAC): Classification of Public Shares as Financial Liabilities or Equity (IAS 32)

Deloitte Touche Tohmatsu Limited is pleased to respond to the IFRS Interpretations Committee's publication in the March 2022 IFRIC Update of the tentative agenda decision (TAD) not to take onto the Committee's agenda the request for clarification about applying IAS 32 in relation to the classification of shares issued by a special purpose acquisition company (SPAC) as financial liabilities or equity.

We agree with the IFRS Interpretations Committee's decision not to add this item onto its agenda for the reasons outlined in the decision.

However, we are concerned with the statement in the TAD that "IAS 32 contains no requirements for assessing whether a decision of shareholders is treated as a decision of the entity". In particular, we 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 (e.g. which factors may be relevant in making the assessment). We suggest that this sentence be removed from the TAD as 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 Board's Financial Instruments with Characteristics of Equity (FICE) project.

If you have any questions concerning our comments, please contact Veronica Poole in London at +44 (0) 20 7007 0884.

Yours sincerely



Veronica Poole
Global IFRS and Corporate Reporting Leader

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