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 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 indefinitely if no target entity is acquired.

The request asked about the effect of the shareholders' contractual right to extend the SPAC's life indefinitely on the classification of the Class B shares—in particular, whether the shareholders' decision 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 includes no requirements on how to assess 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 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.