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:

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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.