



**International
Accounting Standards
Board**

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This document is provided as a convenience to observers at IFRIC meetings, to assist them in following the IFRIC's discussion. It does not represent an official position of the IFRIC. IFRIC positions are set out in Interpretations.

Note: These notes are based on the staff paper prepared for the IFRIC. Paragraph numbers correspond to paragraph numbers used in the IFRIC paper. However, because these notes are less detailed, some paragraph numbers are not used.

INFORMATION FOR OBSERVERS

IFRIC meeting: March 2006, London

**Project: IFRS 2 – Fair value measurement of a post-vesting transfer restriction
(Agenda Paper 10(iii))**

Introduction

1. The IFRIC has received a request in connection with employee share purchase plans in which employees can buy shares of the employing entity at a discount to the market price but are not permitted to sell those shares for a certain period after the vesting date.
2. Paragraph B2 of Appendix B to IFRS 2 states that the fair value of shares granted to employees shall be measured at the market price of the entity's shares adjusted to take into account the terms and conditions upon which the shares were granted (except for vesting conditions).
3. The request refers to an approach under which such restrictions are measured based on the "opportunity cost" borne by employees arising from these restrictions. The "opportunity cost" is then determined based on the cost of a two-stage strategy consisting of individual employees (1) forward selling shares that cannot be disposed of for the

restriction period and (2) buying the same number of shares that are freely traded in the market with a personal loan from a bank.

4. The request states that, if the interest rate used to calculate the value of the forward sale is the same as that used to calculate the cost of finance, the cost of the strategy would be zero (i.e., the fair value of post-vesting restricted shares would be the same as that of unrestricted shares). However, the request also notes that some people believe that it is not appropriate to apply the same interest rate to determine the value of the forward sale and the cost of finance.
5. The issue is whether the approach set out in the request is consistent with the requirements of IFRS 2.

Recommendation

6. The approach set out in the request takes into account, in determining the value of post-vesting transfer restrictions, the opportunity cost to employees as a result of the lack of disposability of shares during the restriction period.
7. However, the staff believes that this approach might not be consistent with the requirements of IFRS 2. IFRSs define fair value as the amount for which an asset could be exchanged between knowledgeable, willing parties in an arm's length transaction. In addition, paragraph B3 of Appendix B to IFRS 2 requires that, if the shares are subject to restrictions on transfer after vesting date, that factor shall be taken into account, but only to the extent that the post-vesting restrictions affect the price that a knowledgeable, willing market participant would pay for that share. In other words, only factors that affect knowledgeable and willing market participants' decisions should be considered in determining the value of post-vesting transfer restrictions. Entity-specific or employee-specific factors are not relevant.
8. Since restricted shares are facts and circumstances specific, the staff believes that there would be no generic formula by which the fair value of restricted shares could be

estimated. Entities should determine the fair value of restricted shares on a case-by-case basis.

9. The Agenda Committee believes that this issue is sufficiently narrow and the guidance in IFRSs is sufficiently clear that no Interpretation is required. It, therefore, recommends that the issue should not be taken onto the agenda. [Last sentence deleted].