

IFRS 2 Share-based Payment (November 2006)

Fair value measurement of post-vesting transfer restrictions

The IFRIC was asked whether the estimated value of shares issued only to employees and subject to postvesting restrictions could be based on an approach that would look solely or primarily to an actual or synthetic market that consisted only of transactions between an entity and its employees and in which prices, for example, reflected an employee's personal borrowing rate. The IFRIC was asked whether this approach was consistent with the requirements under IFRS 2.

The IFRIC noted the requirements in paragraph B3 of Appendix B to IFRS 2, which states 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. For example, if the shares are actively traded in a deep and liquid market, post-vesting transfer restrictions may have little, if any, effect on the price that a knowledgeable, willing market participant would pay for those shares.' Paragraph BC168 of the Basis for Conclusions on IFRS 2 notes that 'the objective is to estimate the fair value of the share option, not the value from the employee's perspective.' Furthermore, paragraph B10 of Appendix B to IFRS 2 states that 'factors that affect the value of the option from the individual employee's perspective only are not relevant to estimating the price that would be set by a knowledgeable, willing market participant.' The IFRIC noted that these paragraphs require consideration of actual or hypothetical transactions, not only with employees, but rather with all actual or potential market participants willing to invest in restricted shares that had been or might be offered to them. The IFRIC believed that the issue was not expected to create significant divergence in practice and that the requirements of IFRS 2 were clear. The IFRIC, therefore, decided not to take the issue onto the agenda.