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International Accounting Standards Board
International Financial Reporting Interpretations Committee
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Dear IFRIC Members

Tentative Agenda Decision – Restricted Securities

The global organisation of Ernst & Young is pleased to submit comments on the IFRIC's tentative rejection notice on restricted securities.

The question on which the IFRIC was asked for guidance was: "whether a discount must be applied to the quoted market price when establishing the fair value of a security quoted in an active market when there is a contractual, governmental or other legally enforceable restriction that prevents the sale of the security for a specified period". The question was limited to situations in which the restriction applied to the current holder of the security and would not transfer to another entity".

The IFRIC issued a rejection notice stating that "any potential guidance on this issue would be in the nature of implementation guidance rather than an interpretation. In its view, any additional guidance that is necessary should be provided by the Board in its project on fair value measurement".

While we agree that implementation guidance provided by the Board would be helpful and the expert advisory panel paper may provide some additional thoughts on this issue, there are two wider aspects to the question raised in the submission on which, in our view, further interpretative guidance is required. These are: i) whether the accounting for a security containing a restriction specific to the holder results in one or two units of account and ii) the apparent conflict between IAS 39 and IFRS 2.

Regarding the first issue, we believe that the IFRIC should provide further interpretative guidance on whether preparers should account for a security containing a restriction specific to the holder using:

- A "single unit of account", corresponding to the restricted security as a whole and thus considering the discount as a component of the amount to be recognised at the inception date; or

- "two units of account", corresponding to the market value of the security accounted for using "price times quantity" approach and the restriction accounted for separately as a liability for the cost of holding the asset during the lock-up period. This liability would subsequently be unwound through deferred income as the lock-up period elapses.

Both approaches outlined above consider the existence of a discount related to the restriction and thus the amount to be recognised at the inception date will necessarily be affected due to the consideration given to the restriction.

Based on the rationale outlined above, we believe that the IFRIC should consider the need for further interpretative guidance or alternatively take this issue into account in the final wording of the rejection notice

With respect to the apparent conflict between IFRS 2 and IAS 39, we believe the two standards might be regarded as contradictory. IG Example 11 of the *Guidance on Implementing IFRS 2 Share-based Payment* states that "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", implying that such a discount on a restricted security may exist, even if such discount is small. This is not necessarily consistent with IAS 39 which states in paragraph AG71 that "a published price quotation in an active market is the best estimate of fair value", implying that no discount should be taken because the shares are the same as the ones traded in the active market.

In order to eliminate this inconsistency IFRIC should recommend that the Board review the wording in IAS 39 and IFRS 2 in order to clarify its original intentions and ensure consistency between the two standards.

We would be pleased to discuss our comments further with the Board at your convenience. Please contact Tony Clifford on 020 7951 2550.

Yours faithfully

Ernst & Young