STAFF PAPER

12–13 November 2013

IFRS Interpretations Committee Meeting

IFRS IC Sep 2013

Project	**Tentative agenda decision**
Paper topic	IFRS 2 *Share-based Payment*—price difference between the institutional offer price and the retail offer price for shares in an initial public offering

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Introduction

1. At its September 2013 meeting, the IFRS Interpretations Committee ('the Interpretations Committee') discussed a request to clarify how an entity should account for a price difference between the retail offer price and the institutional offer price (when the retail offer price is lower) for shares issued in an initial public offering (IPO).

2. The submitter stated that the final retail price could be different from the institutional price because of:

   (a) an unintentional difference arising from the book-building process or derived from a change in the fair value of the shares between the time the indicative offer price is set and the time the institutional price is determined; or

   (b) an intentional difference arising from a discount given to retail investors as indicated in the prospectus.

3. The submitter asked the Interpretations Committee to clarify whether the transaction could be analysed within the scope of IFRS 2 *Share-based Payment.*

4. The main analysis of this issue is included in [Agenda Paper 15 of September 2013], which includes in **Appendix A** a copy of the original submission received.

Purpose of the paper

5. The main purpose of this paper is to:

   (a) provide some background information about the issue;

   (b) provide a draft of a tentative agenda decision for the consideration of the Interpretations Committee members about the issue. This tentative agenda decision is based on the discussions that the Interpretations Committee had at its September 2013 meeting; and

   (c) ask the Interpretations Committee whether it agrees with the draft of the tentative agenda decision.

6. Our proposed tentative agenda decision is included in **Appendix A** of this paper.

Background information

7. The submitter observes that in some cases the issuer gives an intentional discount to retail investors on the final institutional price to encourage subscriptions from the public, in order to meet the minimum published shareholding spread required under the stock exchange's regulations.

8. The submitter observes that in other cases the price difference is unintentional and is due to:

   (a) a 'misjudgement' when the retail offer price is not determined accurately); or

   (b) a change in the fair value of the shares between the time the indicative offer price is set and the time the institutional price is determined (ie this occurs because the market expectations of the investors might have changed).

9. In such cases the price difference is not considered to be a discount that the issuer gave to the retail investors on purpose, as part of the issuer's strategy to attract investors.

10. The submitter asked the Interpretations Committee to provide guidance on the accounting for the price differences described above arising from the discount offered to retail investors (ie an intentional difference) and from the unintentional difference arising from the book-building process or derived from a change in fair value.

Summary of the Interpretations Committee's discussion

11. At the September 2013 meeting, the Interpretations Committee analysed the results from the outreach request presented by the staff. It observed that even though there are divergent interpretations on how to account for the price difference between shares issued to retail investors and the shares issued to institutional investors, the issue analysed does not seem to be widespread. Consequently, it asked the staff to prepare a tentative agenda decision for discussion at a future meeting.

12. During its discussion of the fact pattern analysed, a majority of the Interpretations Committee members tentatively observed that the guidance in IFRS 2 would not apply to account for the price difference between shares issued to retail investors and the shares issued to institutional investors, because the issuer is not obtaining goods or services from the retail investor. This would apply for the case in which:

    (a) the retail investor receives a discount on the price of its shares (an intentional difference);

    (b) a price difference arises from a change in the fair value of the shares between the time the indicative offer price is set and the time the institutional price is determined (unintended difference); and

    (c) a price difference that arises from a misjudgement in estimating the indicative retail offer price (an unintended difference).

13. A consequence of concluding that the transactions are outside the scope of IFRS 2, is that the difference between the institutional price and the final retail price does not represent an unidentifiable service acquired in accordance with paragraph 13A of IFRS 2. Consequently there would be no expense to recognise in accordance with paragraph 8 of IFRS 2.

14. Instead, the Interpretations Committee tentatively observed that the price negotiated between the issuer and the retail investor and between the issuer and the institutional investor is accepted as the fair value of the transaction, regardless of the fact that the retail investor and the institutional investor are acquiring shares at the same time.

15. Consequently, the Interpretations Committee tentatively observed that the equity instruments issued will be measured at the amount of the proceeds received from each shareholder group (based on the final offer price paid). This amount should be recorded in equity in accordance with paragraph 33 of IAS 32 *Financial Instruments: Presentation*.

Draft of tentative agenda decision

16. We have set out the wording for the tentative agenda decision in Appendix A of this paper.

Question for the Interpretations Committee

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1. Does the Interpretations Committee agree with the wording shown in Appendix A for the tentative agenda decision?

Appendix A—Tentative agenda decision

A1. We propose the following wording for the tentative agenda decision:

IFRS 2 *Share-based Payment*—price difference between the institutional offer price and the retail offer price for shares in an initial public offering

The IFRS Interpretations Committee (the 'Interpretations Committee') received a request to clarify how an entity should account for a price difference between the institutional offer price and the retail offer price for shares issued in an initial public offering (IPO).

The submitter refers to the fact that the final retail price could be different from the institutional price because of:

(a) an unintentional difference arising from the book-building process; or

(b) an intentional difference arising from a discount given to retail investors by the issuer of the equity instruments as indicated in the prospectus.

The submitter asked the Interpretations Committee to clarify whether the transaction should be analysed within the scope of IFRS 2 *Share-based Payment.*

The Interpretations Committee noted that the transactions analysed are outside the scope of IFRS 2, because the issuer of the shares is not obtaining goods or services from either shareholder group. Consequently, the Interpretations Committee observed that the guidance in IFRS 2 cannot be applied.

The Interpretations Committee noted that the equity instruments issued by the entity and granted to the investors should be measured at the fair value of the shares issued, at the different prices paid by the investors. This amount should be recorded in equity in accordance with paragraph 33 of IAS 32 *Financial Instruments: Presentation.*

The Interpretations Committee observed that the issue analysed is not widespread. It also observed that the transaction analysed arises in only a limited number of jurisdictions, each with particular laws and regulations. Consequently, the Interpretations Committee [decided] not to add this issue to its agenda.