STAFF PAPER

15 –16 July 2014

IFRS Interpretations Committee Meeting

IFRS IC Sep and Nov 2013; May 2014

Project	**Finalisation of 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. In November 2013 the IFRS Interpretations Committee (the Interpretations Committee) published a tentative agenda decision not to add to its agenda 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).

2. At the May 2014 meeting the Interpretations Committee discussed the comments received on this tentative agenda decision.

3. The Interpretations Committee confirmed its decision not to take this issue onto its agenda and confirmed that IFRS 2 is not applicable to the transaction analysed.

4. However, the Interpretations Committee decided that the agenda decision should contain more explanations about the reasons why the guidance in IFRS 2 is not applicable to the transaction analysed, including discussion of factors that distinguish the transaction analysed from other transactions that the Interpretations Committee has analysed to which paragraph 13A of IFRS 2 does apply.

5. The Interpretations Committee directed the staff to bring back a new draft of the final agenda decision at a future meeting that will reflect the conclusions noted above.

Purpose of the paper

6. The purpose of this paper is to:

   (a) provide the Interpretations Committee with a draft of the wording for the final agenda decision that reflects the conclusions reached at the May 2014 meeting (refer to **Appendix A** and **Appendix B**); and

   (b) ask the Interpretations Committee whether it agrees with the staff's recommendation.

Summary of the discussion at the May 2014 meeting

7. The following paragraphs summarise the main comments expressed by a majority of the Interpretation Committee members at its May 2014 meeting.

8. The members of the Interpretations Committee observed that the entity issues shares at different prices to two different groups of investors (retail and institutional) for the purpose of raising funds. The only relationship between the entity and the parties to whom the shares are issued is that of investee-investors and the investors are acting in their capacity as shareholders.

9. The members of the Interpretations Committee also discussed some of the reasons why the guidance in paragraph 13A of IFRS 2 is not applicable to the transaction analysed. They observe that the guidance in this paragraph addresses a situation in which the identifiable consideration received *is less* than the fair value of the equity instruments granted, which indicates that other consideration (ie unidentifiable goods or services) has been (or will be) received by the entity.

10. However, they noted that in the fact pattern analysed, the consideration paid by each investor is the fair value of the equity instruments granted in two different markets: one that is accessible to retail investors only and another one accessible

to institutional investors only. Any difference in the price of the shares for retail and for institutional investors exists because the shares are issued in different markets and not because there is a receipt of an additional good or service from each one of those investors in accordance with IFRS 2.

11. With respect to the factors that distinguish the transaction analysed from other transactions to which paragraph 13A of IFRS 2 is applicable, they noted the following distinction:

    (a) in the fact pattern analysed by the Interpretations Committee in March 2013 regarding the ‘accounting for reverse acquisitions that do not constitute a business’, the accounting acquirer receives a stock exchange listing from the listed non-operating entity. The Interpretations Committee noted that the listed non-operating entity was in possession of this legal listing, which was able to transfer to the accounting acquirer; whereas

    (b) in the fact pattern analysed, the entity issues shares to two classes of shareholders acting in their capacity as shareholders and, in doing so, meets a regulatory requirement to obtain a listing (which is to attain a minimum number of shareholders). The Interpretations Committee noted that the listing is not received from those shareholders.

Other considerations

12. We note that at the May 2014 meeting the members of the Interpretations Committee did not object to the staff’s proposals to:

    (a) delete any reference to the application of IFRS 13 to the fact pattern analysed, to avoid any potential confusion; more specifically, to delete the reference to paragraph B4(d) in IFRS 13, which specifies that a transaction price may differ from fair value if the “market in which the transaction takes place is different from the principal market (and most advantageous market)” because IFRS 13 does not provide guidance on identifying individual markets; and

(b) revise the penultimate paragraph in the tentative agenda decision to reflect the actual wording of paragraph 33 of IAS 32.

13. Consequently, the wording of the agenda decision also reflects the staff's proposals above.

Staff recommendation

14. We have amended the wording of the agenda decision to include the views of the majority of the members as summarised in the section above. The wording for the final agenda decision (showing changes from the tentative agenda decision) can be found in **Appendix A** of this paper. A clean version of the agenda decision can be found in **Appendix B** of this paper.

Question for the Interpretations Committee

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Does the Interpretations Committee agree with the revised wording proposed for the agenda decision in Appendix A of this paper?

Appendix A—Final agenda decision (version with changes tracked from the tentative agenda decision)

A1. We propose the following wording for the final agenda decision, showing changes from the tentative agenda decision. New text is underlined and deleted text is struck through.

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 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 described a situation in which the issuer needs to fulfil a minimum number of shareholders to qualify for a listing under the stock exchange's regulations in its jurisdiction. This minimum number is achieved through offering shares to retail investors at a discount from the price at which shares were sold to institutional investors.

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 considered whether the transaction analysed involves the receipt of identifiable or unidentifiable goods or services from the retail shareholder group, and therefore whether it is a share-based payment transaction within the scope of IFRS 2. Paragraph 13A of IFRS 2 requires that if consideration received by the entity appears to be less than the fair value of the equity instruments granted or liability incurred, then this situation typically indicates that other consideration (ie unidentified goods or services) has been (or will be) received by the entity. The Interpretations Committee noted that applying this guidance requires judgement and consideration of the specific facts and circumstances of each transaction.

In the circumstances underlying the submission, the Interpretations Committee ~~concluded that no unidentified goods or services have been (or will be) received. This is because the price agreed between each shareholder group reflected only a transaction to raise funds and the retail shareholder group did not provide any goods or services, only the cash consideration to acquire the~~observed that the entity issues shares~~The Interpretations Committee also noted that the entity has issued shares in~~ at different prices to two different ~~markets (the~~ groups of investors (retail and institutional)~~ market and the retail market). It was unclear from the submission which price (the retail price or the institutional price) represents the fair value of a share in accordance with IFRS 13 Fair Value Measurement. However, IFRS 13 paragraph B4(d) states that a transaction price may differ from fair value if the transaction takes place in a market other than the principal market (or most advantageous market). The Interpretations Committee concluded)~~ for the purpose of raising funds, and that the difference, if any, between the retail price and the ~~fair value~~institutional price of ~~a share~~the shares in the fact pattern ~~considered appeared~~appears to relate to the existence of different markets (one that is accessible to retail investors only and another one accessible to institutional investors only) rather than the receipt of additional goods or services~~.~~, because the only relationship between the entity and the parties to whom the shares are issued is that of investee-investors.

Consequently, the Interpretations Committee observed that the guidance in paragraph 13A of IFRS 2 is not applicable because there is no share-based payment transaction.

The Interpretations Committee noted that this situation is different to the issue on which it had issued an agenda decision in March 2013~~. In that agenda decision~~ (“Accounting for reverse acquisitions that do not constitute a business”). In that fact pattern the Interpretations Committee observed that the accounting acquirer received a stock exchange listing from the listed non-operating entity, which the listed non-operating entity had previously possessed and was able to transfer to the accounting acquirer. In that agenda decision the Interpretations Committee concluded that any difference in the fair value of the shares deemed to have been issued by the accounting acquirer and the fair value of the accounting acquiree’s identifiable net assets represents a service received by the accounting acquirer. ~~The Interpretations Committee observed that in that fact pattern, the service received from the other entity was a stock exchange listing for its shares, whereas in the fact pattern considered in this submission the stock exchange listing was not received in exchange for, or conditional on, the issue of the shares for less than fair value.~~

~~The Interpretations Committee noted that the equity instruments issued by the entity to the investors should be recognised in equity in accordance with paragraph 33 of IAS 32 Financial Instruments: Presentation and be measured at the fair value of the consideration received.~~

The Interpretations Committee observed that in the fact pattern considered in this submission the listing is not received from the shareholders and is not received in exchange for, or conditional on, the issue of the shares for less than fair value. The fact that a regulatory requirement is met by virtue of issuing the retail shares does not indicate that the shares were issued at less than fair value and that unidentifiable goods or services were received from the purchasers.

The Interpretations Committee finally noted that, when accounting for the disposal of treasury shares, the ~~equity instruments issued~~ consideration received by the entity ~~to~~ from the investors ~~should~~ must be recognised directly in equity in accordance with paragraph 33 of IAS 32 *Financial Instruments: Presentation*. ~~and be measured at the fair value of the consideration received.~~ Furthermore it observed that in accordance with this same paragraph “no gain or loss shall be recognised in profit or loss on the purchase, sale, issue or cancellation of an entity’s own equity instruments”.

On the basis of the analysis above, the Interpretations Committee determined that, in the light of the existing IFRS requirements, sufficient guidance exists and that neither an Interpretation nor an amendment to a Standard was necessary. Consequently, the Interpretations Committee ~~[~~decided~~]~~ not to add this issue to its agenda.

Appendix B—Final agenda decision (clean version)

B1. We propose the following wording for the final 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 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 described a situation in which the issuer needs to fulfil a minimum number of shareholders to qualify for a listing under the stock exchange's regulations in its jurisdiction. This minimum number is achieved through offering shares to retail investors at a discount from the price at which shares were sold to institutional investors.

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 considered whether the transaction analysed involves the receipt of identifiable or unidentifiable goods or services from the retail shareholder group, and therefore whether it is a share-based payment transaction within the scope of IFRS 2. Paragraph 13A of IFRS 2 requires that if consideration received by the entity appears to be less than the fair value of the equity instruments granted or liability incurred, then this situation typically indicates that other consideration (ie unidentified goods or services) has been (or will be) received by the entity. The Interpretations Committee noted that applying this guidance requires judgement and consideration of the specific facts and circumstances of each transaction.

In the circumstances underlying the submission, the Interpretations Committee observed that the entity issues shares at different prices to two different groups of investors (retail and institutional) for the purpose of raising funds, and that the difference, if any, between the retail price and the institutional price of the shares in the fact pattern appears to relate to the existence of different markets (one that is accessible to retail investors only and another one accessible to institutional investors only) rather than the receipt of additional goods or services, because the only relationship between the entity and the parties to whom the shares are issued is that of investee-investors.

Consequently, the Interpretations Committee observed that the guidance in paragraph 13A of IFRS 2 is not applicable because there is no share-based payment transaction.

The Interpretations Committee noted that this situation is different to the issue on which it had issued an agenda decision in March 2013 ("Accounting for reverse acquisitions that do not constitute a business"). In that fact pattern the Interpretations Committee observed that the accounting acquirer received a stock exchange listing from the listed non-operating entity, which the listed non-operating entity had previously possessed and was able to transfer to the accounting acquirer. In that agenda decision the Interpretations Committee concluded that any difference in the fair value of the shares deemed to have been issued by the accounting acquirer and the fair value of the accounting acquiree's identifiable net assets represents a service received by the accounting acquirer.

The Interpretations Committee observed that in the fact pattern considered in this submission the listing is not received from the shareholders and is not received in exchange for, or conditional on, the issue of the shares for less than fair value. The fact that a regulatory requirement is met by virtue of issuing the retail shares does not indicate that the shares were issued at less than fair value and that unidentifiable goods or services were received from the purchasers.

The Interpretations Committee finally noted that, when accounting for the disposal of treasury shares, the consideration received by the entity from the investors must be recognised directly in equity in accordance with paragraph 33 of IAS 32 *Financial Instruments: Presentation*. Furthermore it observed that in accordance with this same paragraph “no gain or loss shall be recognised in profit or loss on the purchase, sale, issue or cancellation of an entity’s own equity instruments”.

On the basis of the analysis above, the Interpretations Committee determined that, in the light of the existing IFRS requirements, sufficient guidance exists and that neither an Interpretation nor an amendment to a Standard was necessary. Consequently, the Interpretations Committee decided not to add this issue to its agenda.