IFRS™

STAFF PAPER

10 – 11 September 2013

IFRS Interpretations Committee Meeting

Project	**New items for initial consideration**
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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This paper has been prepared by the staff of the IFRS Foundation for discussion at a public meeting of the IFRS Interpretations Committee. Comments made in relation to the application of an IFRS do not purport to be acceptable or unacceptable application of that IFRS—only the IFRS Interpretations Committee or the IASB can make such a determination. Decisions made by the IFRS Interpretations Committee are reported in IFRIC *Update*. The approval of a final Interpretation by the Board is reported in IASB *Update*.

Introduction

1. In June 2013, 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).

2. 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 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 notes that there are divergent views on whether the difference between the retail offer price and the institutional offer price (ie when the former price is lower than the latter), can be analysed within the scope of IFRS 2

Share-based Payment or whether this difference could be analysed as an equity transaction (ie a transaction with owners in their capacity as owners) in accordance with IFRS 10 *Consolidated Financial Statements*. The submitter asks the Interpretations Committee to provide some clarity in this respect.

4. We performed outreach with the International Forum of Accounting Standard-Setters (IFASS) and a group of securities regulators on this topic in order to find out whether the issue raised by the submitter is widespread and whether significant diversity in practice exists. The results of this outreach are included as part of our analysis of this issue.

5. The submission is reproduced in full in **Appendix A** to this paper.

Purpose of the paper

6. The purpose of this paper is to:

   (a) provide an analysis of the issue raised in the submission;

   (b) provide a summary of the outreach results on the issue raised;

   (c) present an assessment of the issue against the Interpretations Committee's agenda criteria; and

   (d) present some staff views to the Interpretations Committee on how the transaction analysed should be accounted for.

7. This paper does not include a staff recommendation. We plan to bring another Agenda Paper to a future meeting, which will be based on the Interpretations Committee's deliberations on our views presented in this paper at the September 2013 meeting.

Submission description

8. An IPO generally refers to the first time a company offers its shares to the general public. A prospectus is the offering document used by the issuer to solicit investors.

9. The IPO prospectus contains details about the offer such as the purpose of the offering, the number and type of securities to be issued or offered, and the number and type of securities proposed to be issued or offered to different groups of investors, among other things. It also contains details about the pricing of securities, including:

   (a) the prices applied to different classes of investors; and

   (b) the bases for determining the issue/offer price.[1]

10. The submitter refers to the fact that the offer in large public offerings is usually split into retail and institutional tranches.

Institutional price

11. The submitter refers that the price for the institutional tranche is determined *after* the issuance of the IPO prospectus, through a book-building process.

12. When the book-building process is completed the institutional price is determined.

Indicative retail offer price

13. The submitter notes that the indicative offer price for the retail tranche is determined through a price discovery process by taking into consideration a number of factors related to the business, such as the business's nature, history, competitive strengths and strategies, among other factors.

14. The indicative offer retail price is set *before* the institutional price is determined.

15. The retail indicative price is required to be stated in the prospectus.

Final retail offer price

16. The final retail offer price should not be higher than the final offer institutional price; consequently, the final offer institutional price is the 'ceiling price' that a retail investor is required to pay for the shares.

[1] Source: http://www.sc.com.my/eng/html/resources/guidelines/prospectus/130104/part1_equity.pdf

17. Typically, the final retail offer price is set at a price that is equal to the *lower* of the:

    (a) institutional (fixed) price, determined through a book-building process; or

    (b) the indicative retail offer price.

Situation in which an unintentional difference arises

18. The submitter observes that there are cases in which an unintentional price difference arises between the final offer price and the institutional price (the difference being that the final offer price is lower than the institutional price, instead of both prices being identical). This difference might be due to:

    (a) a 'misjudgement' when determining the indicative retail offer price during the price discovery process which caused the entity not to estimate the retail offer price accurately (ie failing to estimate a price that is equivalent to the institutional offer price).

    (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; this change could have occurred because the market expectations of the investors could have changed.

19. 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.

Situation in which an intentional difference arises

20. In other cases a price difference between the institutional price and the final retail offer price is set on purpose when the issuer gives a discount to retail investors on the final institutional price.

21. The submitter further explains that the issuer gives a discount to the retail investor to encourage subscriptions from the public in order to meet the minimum published shareholding spread required under the stock exchange's regulations. In this respect, the submitter explains that under the stock exchange requirements

in its jurisdiction the issuer needs to fulfil a minimum public spread of its shareholdings to obtain a listing, as explained below:

> An applicant seeking to list its securities must have at least 25% of the total number of shares or units for which listing is sought in the hands of a minimum number of 1,000 public shareholders or unit holders holding not less than 100 shares or units each *[Source Chapter 3 – Admission (paragraph 3.06*[2]*]*;

22. When an issuer offers a discount to retail investors the final retail offer price is set at the *lower* of the:

    (a) fixed percentage of the institutional price (for example, 95 per cent of the institutional offer price); or

    (b) the indicative retail offer price.

Views identified in practice

23. The submitter observes that two views have arisen in practice to account for the price difference between the final retail offer price and the institutional price when the former is lower than the latter:

    (a) some think that the entity is deemed to have received, or will receive, unidentifiable goods or services in accordance with IFRS 2, in which case an expense is recognised in profit or loss for the amount of the discount given to retail investors; whereas

    (b) others think that the price difference is not due to any goods or services received and consequently IFRS 2 would not apply. In accordance with this view, the equity instruments issued to retail investors are measured at the amount of the proceeds received, and no charge is recognised in profit or loss for the price difference between retail investors and

[2] Extracted from: Chapter 3: *Admission* (paragraph 3.06(1)). Link: http://www.bursamalaysia.com/market/regulation/rules/listing-requirements/main-market/listing-requirements

institutional investors. Proponents of this view observe that within this view:

(i) some would record the proceeds received at the final retail offer price paid by each potential investor; whereas

(ii) others observe that they would record the proceeds received at the institutional price and deduct from equity the discount given to the retail investors (ie consider it a transaction cost).

24. The submitter asks the Interpretations Committee to provide clear guidance on the accounting for the price differences described above arising from:

(a) an intentional difference; and

(b) 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.

25. The analysis of the price difference as an 'intentional difference' is included in **Section 1** of this paper; and the analysis of the price difference as an 'unintentional difference' is included in **Section 2** of this paper.

Summary of outreach activities

26. We asked regulators and national standard-setters to provide us with information on whether the issues raised in the submission:

(a) are widespread and have practical relevance; and

(b) indicate that there are significant divergent interpretations (either emerging or existing in practice).

27. We asked the following questions:

(a) **Question 1** (Q1): in your jurisdiction, do you observe differences in the share price between the retail offer price and the institutional offer price

in the context of an IPO? If yes, could you please describe these differences and how or why they arise?

(b) **Question 2** (Q2): if yes to Q1 what is the prevalent approach in your jurisdiction to account for differences in prices arising from the share price offered to retail investors and to institutional investors? If you see diversity in practice in that accounting, please explain how.

Responses from national standard-setters and regulators

28. We received responses from:

(a) the IOSCO group and individually from one of the IOSCO members; and

(b) ten national standard-setters.

29. We summarise the results of the outreach in the following paragraphs. The views expressed below are informal opinions from regulators and national standard-setters. They do not reflect the formal views of those organisations.

Responses received from regulators

30. IOSCO members in general do not think that the transaction analysed in the submission is common.

31. One IOSCO member who individually replied to our outreach request noted that in respect of Q1, the issuer in its jurisdiction will only have one offer price for its shares in an IPO and this will be the price disclosed in the prospectus; the issuer will receive capital equal to the share price disclosed in the prospectus (less underwriting fees). In respect of Q2, this same regulator noted that there is not specific guidance to address discounts on the issuance of equity shares but this respondent thinks that any discounts would typically be reflected in equity, on the basis of analogies to some of their local standards.

Responses received from national standard-setters

32. The geographical breakdown for the responses received from national standard-setters is as follows:

Geographical region	Number of respondents
Asia	2
Europe	3
Americas	3
Oceania	1
Africa	1
Total respondents	**10**

33. In respect to **Q1** eight of the ten respondents who replied to our outreach request have not observed differences in the share price between the retail offer price and the institutional offer price within the context of an IPO in their jurisdictions and consequently none of these respondents think that the issue raised in the submission is prevalent or even common in practice.

34. Some of these respondents provided further comments as follows:

    (a) six respondents indicated that their local regulations do not permit entities to sell shares in an IPO at different prices between retail and institutional investors;

    (b) one respondent mentioned that at the time of the offering, shares are sold to investors (a majority of whom are institutional investors) at that predetermined share price and that retail investors that are allowed by the underwriter to participate in the IPO would also pay the same predetermined share price;

    (c) one respondent further noted that price differences may occur in a private offering when there is an intention to incorporate a strategic partner in the business; and

(d) one respondent indicated that once an IPO is undertaken, no distinction is made between institutional and retail investors, so no such price difference has arisen.

35. Also in respect to Q1 two respondents who replied to our outreach request have observed differences in the share price between the retail offer price and the institutional offer price, as follows:

(a) One respondent reported that it has seen one transaction in which institutional investors were offered a discount if they guaranteed taking up a certain amount of the shares. This respondent observed that this entity accounted for it as a share-based payment transaction and recognised the discount granted as an expense.

(b) Another respondent mentioned that it is common to have an intentional difference in pricing between institutional and retail investors. The price difference arises from a discount given to retail investors as indicated in the prospectus. The primary reason for providing such a discount is a) to achieve a sufficient number of shareholders to fulfil listing requirements and b) to allow existing and future customers of the entity to get an ownership position in the entity.

36. Some of the respondents expressed their views on which should be the prevalent approach to account for differences in prices arising from the share price offered to retail investors and to institutional investors, as follows (**Q2**):

(a) One respondent thinks that the price difference that is reflected as a discount could be accounted for in accordance with IFRS 2 as goods or services that cannot be identified; but he also thinks that some might argue that such a discount represents a transaction cost for the issuing equity.

(b) One respondent thinks that the price difference should not be accounted for in accordance with IFRS 2 because this respondent thinks that there are no unidentified goods or services to be accounted for under IFRS 2.

(c) One respondent thinks that a price difference should be recognised as a reduction of the equity raised. The rationale supporting this view is that transactions in which price differences arise are considered transactions with owners in their capacity as owners, and in such cases the effect should not affect profit or loss.

(d) One respondent mentioned that the prevalent approach in its jurisdiction to account for differences in prices arising from the share price offered to retail investors and to institutional investors is not to follow the guidance in IFRS 2.

Staff analysis

Section 1: intentional price difference—Approaches identified

37. We have identified the following approaches to account for the price difference between the final offer price and the institutional price when the former is intentionally lower than the latter, and the price difference is viewed as the discount given to the retail investor:

    (a) **Approach 1:** the price difference represents unidentifiable goods or services received, in which case an expense is recognised in profit or loss for the amount of the discount given to retail investors; and

    (b) **Approach 2:** the price difference does not represent goods or services received and the difference would not be recognised as an expense.

Approach 1—the price difference represents an unidentifiable good or service received

38. Proponents of Approach 1 believe that the entity issuing shares in an IPO enters into an equity-settled share-based payment transaction with investors, whereby the entity offers equity instruments to retail investors (who are not employees) at a discounted price and in exchange the issuer receives:

(a) cash; and

(b) an unidentifiable service that the issuer receives from the retail investor. This service consists of allowing the issuer to list its securities by meeting a regulatory or other policy objective, for example meeting the minimum public shareholding spread of 1,000 public shareholders required under the stock exchange's regulation.

39. Proponents of this view refer to paragraph 2 of IFRS 2, which requires that IFRS 2 is applied in a share-based payment transaction when an entity acquires or receives goods or services that can be or cannot be identified. In this respect, paragraph 2 states that (emphasis added):

> **An entity shall apply this IFRS in accounting for all share-based payment transactions, whether or not the entity can identify specifically some or all of the goods or services received,** including:
>
> (a) *equity-settled share-based payment transactions*,
>
> (b) *cash-settled share-based payment transactions*, and
>
> (c) transactions in which the entity receives or acquires goods or services and the terms of the arrangement provide either the entity or the supplier of those goods or services with a choice of whether the entity settles the transaction in cash (or other assets) or by issuing equity instruments,
>
> except as noted in paragraphs 3A–6. **In the absence of specifically identifiable goods or services, other circumstances may indicate that goods or services have been (or will be) received.**

40. Paragraph BC18C below further explains that (emphasis added):

> BC18C When the Board developed IFRS 2, it concluded that the directors of an entity would expect to receive some goods or services in return for equity instruments issued (paragraph BC37). **This implies that it is not necessary**

> **to identify the specific goods or services received in return for the equity instruments granted to conclude that goods or services have been (or will be) received.** Furthermore, paragraph 8 of the IFRS establishes that it is not necessary for the goods or services received to qualify for recognition as an asset in order for the share-based payment to be within the scope of IFRS 2. In this case, the **IFRS requires the cost of the goods or services received or receivable to be recognised as expenses**.

41. Proponents of this view would apply the guidance in paragraph 13 of IFRS 2 for share-based payment transactions with non-employees. According to this guidance a share-based payment transaction is measured by reference to the fair value of the consideration received.

> To apply the requirements of paragraph 10 to transactions with parties other than employees, there shall be a rebuttable presumption that the fair value of the goods or services received can be estimated reliably. That fair value shall be measured at the date the entity obtains the goods or the counterparty renders service. **In rare cases, if the entity rebuts this presumption because it cannot estimate reliably the fair value of the goods or services received, the entity shall measure the goods or services received, and the corresponding increase in equity, indirectly, by reference to the fair value of the equity instruments granted**, measured at the date the entity obtains the goods or the counterparty renders service.

42. Proponents of this view assume that in this transaction the institutional offer price is the fair value of the equity instruments granted (ie issued) by the entity. Consequently, the difference between this fair value and the cash received would represent the amount of the unidentifiable services received.

43. Proponents of this view would apply paragraph 13A of IFRS 2 to account for the unidentifiable service acquired. According to this guidance an entity would

measure the unidentifiable service received as the difference between the fair value of the share-based payment (ie shares issued) and the fair value of any identifiable goods or services received (ie cash received). This paragraph is reproduced below:

> 13A In particular, **if the identifiable consideration received (if any) by the entity appears to be less than the fair value of the equity instruments granted or liability incurred, typically this situation indicates that other consideration (ie unidentifiable goods or services) has been (or will be) received by the entity**. The entity shall measure the identifiable goods or services received in accordance with this IFRS. **The entity shall measure the unidentifiable goods or services received (or to be received) as the difference between the fair value of the share-based payment and the fair value of any identifiable goods or services received (or to be received).** The entity shall measure the unidentifiable goods or services received at the grant date. However, for cash-settled transactions, the liability shall be remeasured at the end of each reporting period until it is settled in accordance with paragraphs 30–33.

44. The difference between the fair value of the share-based payment and the fair value of any identifiable goods or services received would be expensed based on paragraph 8 of IFRS 2, as follows:

> When the goods or services received or acquired in a share-based payment transaction do not qualify for recognition as assets, **they shall be recognised as expenses**.

45. Proponents of this view think that the intentional price difference would fall within the scope of IFRS 2.

Approach 2—the price difference does not represent an unidentifiable good or service received

46. Unlike Approach 1, proponents of Approaches 2A and 2B think that the price difference between the institutional price and the final retail offer price cannot be considered a ‘good or service’, as defined in IFRS 2.

47. They think that the issuer of shares is not acquiring or receiving a ‘good’ from the retail investors because it is not receiving any of the items mentioned in the definition of ‘goods’ in IFRS 2, shown below (emphasis added):

> inventories, consumables, property, plant and equipment, intangible assets **and other non-financial assets.**

48. In their view retail investors are merely providers of cash as part of the entity’s fund-raising activities.

49. They also observe that the entity is not receiving a ‘service’ from the retail investors. In this respect they note that in Appendix A of IFRS 2 the notion of ‘service’ is understood within the context of services that are similar to those provided by employees. In this respect IFRS 2 defines *employees and others providing similar services* as (emphasis added):

> ***Employees and others providing similar services***
>
> **Individuals who render personal services to the entity and either** (a) the individuals are regarded as employees for legal or tax purposes, (b) the individuals work for the entity under its direction in the same way as individuals who are regarded as employees for legal or tax purposes, or (c) **the services rendered are similar to those rendered by employees.** For example, the term encompasses all management personnel, ie those persons having authority and responsibility for planning, directing and controlling the activities of the entity, including non-executive directors.

50. Furthermore, paragraph 11 states that (emphasis added):

> 11 **To apply the requirements of paragraph 10 to transactions with *employees and others providing similar services*,** the entity shall measure the fair value of the services received by reference to the fair value of the equity instruments granted, because typically it is not possible to estimate reliably the fair value of the services received, as explained in paragraph 12. The fair value of those equity instruments shall be measured at grant date.

51. Proponents of this view observe that the retail investor is a third party that is providing funds to the entity in a way that is similar to how a supplier or a debtor would provide finance to the entity, but that the retail investor is not providing a service that would be considered similar to a service provided by an employee.

52. If the retail investor is not providing goods or services as defined in IFRS 2, proponents of Approach 2 think that the transactions analysed is outside the scope of IFRS 2. In this respect paragraph 2 states that (emphasis added):

> 2 An entity shall apply this IFRS in accounting for all share-based payment transactions, whether or not the entity can identify specifically some or all of the goods or services received, including:
>
> (a) *equity-settled share-based payment transactions*,
>
> (b) *cash-settled share-based payment transactions*, and
>
> (c) transactions in which the entity receives or acquires goods or services and the terms of the arrangement provide either the entity or the supplier of those goods or services with a choice of whether the entity settles the transaction in cash (or other assets) or by issuing equity instruments,
>
> except as noted in paragraphs 3A–6. **In the absence of specifically identifiable goods or services, other circumstances may indicate that goods or services have been (or will be) received, in which case this IFRS applies**.

53. Being that the transaction is outside the scope of IFRS 2 the price difference should not be expensed in accordance with IFRS 2, and instead, they think that the price difference arising from the final offer price and the institutional price should not be recognised in profit or loss.

Approach 2 – further views

54. Proponents of **Approach 2** have two further views on how the equity instruments issued to retail investors would be measured by the issuer, as follows:

    (a) **Approach 2A**—the equity instruments are recorded at the fair value of the consideration received (based on the final retail offer price paid). The discount given retail investor should not be recognised; and

    (b) **Approach 2B**—the equity instruments are recorded at the fair value of the shares issued (based on the institutional price paid). The discount given to the retail investors is considered a transaction cost and deducted from equity.

Approach 2A: the shares are recorded at the fair value of the consideration received and the discount given to the retail investor should not be recognised

55. Supporters of Approach 2A claim that the final retail price of the shares issued is the fair value of those shares.

56. The shares granted are accounted for at the fair value of the consideration received. Consequently, the price negotiated between the issuer and the retail 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.

57. Proponents of this approach support their views by citing paragraph 33 of IAS 32 *Financial Instruments: Presentation*, which states that there is no gain or loss on the issue of equity. This paragraph is reproduced below (emphasis added):

> If an entity reacquires its own equity instruments, those instruments ('treasury shares') shall be deducted from equity. **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.** Such treasury shares may be acquired and held by the entity or by other members of the consolidated group. **Consideration paid or received shall be recognised directly in equity.**

58. They observe that the requirement of IAS 32 that the consideration paid should be recognised directly in equity is consistent with Approach 2A, because this approach supports measuring the shares issued at the fair value of the consideration received.

59. Moreover, supporters of this view observe that the requirement of IAS 32 that no profits or losses should be recognised on transactions in own equity instruments is different from the view taken in IFRS 2, in which the excess of the consideration received over the fair value of the equity instruments is recognised as an expense.

60. Based on IAS 32, the difference between the final retail offer price and the institutional price (ie the discount given to the retail investor) is not recorded and each transaction is recorded at the different price paid.

61. Consequently, the equity instruments issued will be measured at the amount of the proceeds received (based on the final offer price paid), and the discount given to the retail investors will not be recognised.

Approach 2B: the shares are recorded at the fair value of the shares issued (based on the institutional price) and the discount given to the retail investor is recognised as a transaction cost and deducted from equity

62. Proponents of Approach 2B claim that the institutional price of the shares issued is the fair value of the shares granted to the retail investor and, consequently, the shares granted are accounted for at the fair value of the shares issued (based on the institutional price).

63. Proponents of this view think that the discount given to the retail investor (the difference between the institutional price and the final retail price) should not be ignored, because without this discount the issuer will not be able to attract the number of retail investors to ensure that the required shareholder spread will be met.

64. Consequently, they will recognise the discount, not as an expense, but as a transaction cost that is directly related to the issuance of new equity instruments and consequently think that this cost should be deducted from equity in accordance with paragraph 37 of IAS 32. This paragraphs states that (emphasis added):

> **An entity typically incurs various costs in issuing or acquiring its own equity instruments**. Those costs might include registration and other regulatory fees, amounts paid to legal, accounting and other professional advisers, printing costs and stamp duties. **The transaction costs of an equity transaction are accounted for as a deduction from equity (net of any related income tax benefit) to the extent they are incremental costs directly attributable to the equity transaction** that otherwise would have been avoided. The costs of an equity transaction that is abandoned are recognised as an expense

Staff view

65. Some staff support **Approach 2B,** which refers that the shares should be recorded at the fair value of the shares issued (based on the institutional price) and the discount given to the retail investor should be recognised as a transaction cost and deducted from equity.

66. They believe that the main reason why the entity issues equity instruments is to obtain financing from the general public and not to obtain goods or services from the retail investor. Because the retail investor is not providing goods or services

as defined in IFRS 2, the staff who support this view think that the transactions analysed are outside the scope of IFRS 2.

67. The staff who support this view further observes that the discount provided to retail investors plays an important role in the issue of shares and should not be ignored (as Approach 2A does). This is because they think that without the discount the issuer will not be able to attract the number of retail investors to ensure that the required shareholder spread will be met.

68. The staff further observe that providing finance is not a "service" that is consistent with the notion of "service" in IFRS 2 and consequently do not agree that the discount would automatically fall within the scope of IFRS 2 and be recognised as an expense because it represents a service that cannot be identified.

69. Instead, they think that the guidance in paragraphs 33 and 37 of IAS 32 should be followed to account for the shares issued. Their view is that the equity instruments issued should be measured at the fair value of the shares issued, based on the institutional price paid. The discount given to the retail investors would be recognised as a transaction cost that will be deducted from equity. Consequently, equity will be initially credited for the fair value of the shares issued based on the institutional price paid and it will subsequently be debited by the amount of the discount offered to retail investors.

Alternative staff view

70. Other staff support **Approach 1,** which refers that the price difference represents unidentifiable goods or services received, in which case an expense should be recognised in profit or loss for the amount of the discount given to retail investors.

71. Similarly to Approach 2B, they take the view that an entity did not issue shares for nothing and consequently the issuer must have received something else in exchange from the retail investor. They think that in the fact pattern described above, the discount provided to the retail investors provides a specific benefit to the entity. This benefit is the ability to achieve the regulatory requirement of a minimum number of shareholders, and so the discount is the 'cost' of meeting that regulatory requirement.

72. However, as opposed to Approach 2B, the staff who support this view think that the difference between the institutional price and the final retail price (ie the discount given to the retail investor) represents consideration that the issuer received that cannot be specifically identified (ie an unidentified service) and that should be recognised as an expense in accordance with IFRS 2.

73. They also think that raising finance through an IPO can be analogised to the transaction analysed in Example 1 of the Implementation Guidance of IFRS 2. In this example, an entity grants shares to parties other than employees, representing historically disadvantaged individuals, as a means of enhancing its image as a good citizen, but the entity is unable to identify the specific consideration received in exchange (ie a service or cash received). This example is reproduced below (emphasis added):

IG Example 1 (IFRS 2)
Share-based payment transaction in which the entity cannot identify specifically some or all of the goods or services received **Background** **An entity granted shares with a total fair value of CU100,000[(a)] to parties other than employees who are from a particular section of the community (historically disadvantaged individuals), as a means of enhancing its image as a good corporate citizen.** The economic benefits derived from enhancing its corporate image could take a variety of forms, such as increasing its customer base, attracting or retaining employees, or improving or maintaining its ability to tender successfully for business contracts. **The entity cannot identify the specific consideration received. For example, no cash was received and no service conditions were imposed.** Therefore, the identifiable consideration (nil) is less than the fair value of the equity instruments granted (CU100,000). **Application of requirements** **Although the entity cannot identify the specific goods or services received, the circumstances indicate that goods or services have been (or will be) received, and therefore IFRS 2 applies.** In this situation, because the entity cannot identify the specific goods or services received, the rebuttable presumption in paragraph 13 of IFRS 2, that the fair value of the goods or services received can be estimated reliably, does not apply. The entity should instead measure the goods or services received by reference to the fair value of the equity instruments granted. (a) In this example, and in all other examples in this guidance, monetary amounts are denominated in 'currency units (CU)'.

74. The staff supporting this view observe that the transaction described in this example was introduced by IFRIC 8 *Scope of IFRS 2* (which was later incorporated into IFRS 2), because in these transactions the IFRIC and the IASB

determined that an entity was unable to identify specifically some or all of the goods received.

75. The reason why they think that a situation in which an entity raises finance through an IPO can be analogised to the transaction analysed in Example 1 in IFRS 2 is because they observe that a portion of the consideration received by the issuer cannot be specifically identified as a good or service received. Although the goods or services received cannot be identified, the circumstances indicate that services have been received from the retail investor (ie the issuer has been able to attract the required number of retail investors to ensure that the required shareholder spread will be met) and consequently, IFRS 2 would apply.

76. They think that the entity would measure the goods or services received (both those that are identifiable and those that are not identifiable) by reference to the fair value of the equity instruments granted (ie based on the institutional price for the shares issued) and the difference between the fair value of the share-based payment and the fair value of any identifiable services received would be recognised as an expense.

Section 2: Unintentional difference

77. The submitter observes that there are cases in which an unintentional price difference arises between the final offer price and the institutional price. This difference could be due to a misjudgement when stating the indicative retail offer price during the price discovery 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.

78. The submitter thinks that, similarly to the approaches presented for circumstances in which an intentional difference arises between the retail offer price and the institutional price, the unintentional difference could be either accounted for as an unidentifiable good or service in accordance with IFRS 2 or not recorded at all.

Staff view

79. We think that in the case of a price difference that 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 or from a misjudgement in estimating the indicative retail offer price is merely an unintended difference that should not be recognised in profit or loss.

80. We think that in this case the issue of shares should be measured at the amount of the proceeds received (based on the final offer price paid) in accordance with paragraph 33 of IAS 32. This view would be consistent with Approach 2A described above.

Agenda criteria assessment

81. The staff's assessment of the agenda criteria[3] is as follows:

Agenda criteria

We should address issues (5.16):	
that have widespread effect and have, or are expected to have, a material effect on those affected.	**No.** On the basis of our analysis of the outreach results received from standard-setters and regulators (refer to paragraphs 26–36), we can indicate that this issue is not considered to be widespread and no diversity in practice exists. Because the issue analysed is not widespread and diversity in practice does not currently exist, we do not think that the Interpretations Committee should add this issue to its agenda.
where financial reporting would be improved through the elimination, or reduction, of diverse reporting methods.	**N/A**
that can be resolved efficiently within the confines of existing IFRSs and the *Conceptual Framework for Financial Reporting*.	**N/A**
In addition:	
Is the issue sufficiently narrow in scope that the Interpretations Committee can address	**N/A**

[3] These criteria can be found in the *IFRS Foundation Due Process Handbook* as indicated in the paragraphs below.

this issue in an efficient manner, but not so narrow that it is not cost-effective for the Interpretations Committee to undertake the due process that would be required when making changes to IFRSs (5.17)?	
Will the solution developed by the Interpretations Committee be effective for a reasonable time period (5.21)? (The Interpretations Committee will not add an item to its agenda if the issue is being addressed in a forthcoming Standard and/or if a short-term improvement is not justified)...	**N/A**

Staff recommendation

82. On the basis of our assessment of the Interpretations Committee's agenda criteria, and also on our analysis in this paper, we think that the Interpretations Committee should not take the issue analysed in this paper (ie price difference between the institutional offer price and the retail offer price for shares in an initial public offering) onto its agenda.

83. However, because of the mixed views expressed by the staff on the accounting that should be followed for the transaction analysed, we propose deferring the issue of a tentative agenda decision until we have discussed this transaction with the Interpretations Committee.

84. We plan to bring another Agenda Paper to a future meeting, which will be based on the Interpretations Committee’s deliberations on our views presented in this paper at the September 2013 meeting.

Questions for the Interpretations Committee

Questions for the Interpretations Committee
1. Which approach does the Interpretations Committee support to account for the transaction analysed? (a) Does the Interpretations Committee think that it should be analysed within the scope of IFRS 2 and the discount accounted for as an unidentifiable good or service that should be recognised in profit or loss? **(Approach 1)**; or (b) Does the Interpretations Committee think that it should be analysed outside the scope of IFRS 2? If so does the Committee agree that the transaction should be accounted for in accordance with IAS 32? **(Approach 2)** (c) If the Interpretations Committee agrees that the transaction should be accounted for in accordance with IAS 32, does it agree that: (i) the shares are recorded at the fair value of the consideration received (based on the final retail price) and the discount given to the retail investor should not be recognised? **(Approach 2A)**; or (ii) the shares are recorded at the fair value of the shares issued (based on the institutional price) and the discount given to the retail investor is recognised as a transaction cost and deducted from equity **(Approach 2B)**? 2. Does the Interpretations Committee agree that we should not take this issue onto the agenda because the issue is not widespread?

Appendix A—Submission

B1 We received the following request. We have deleted details that would identify the submitter of this request.

Issues paper on Scope of IFRS 2 *Share-based Payment*

Fact pattern in Malaysia

In Initial Public Offerings (“IPO”), there are various methods used to determine the offer price for the offer shares.

Usually for the smaller offerings, there is only one offer price, which is decided by the Issuer and the Managing Underwriter through various valuation techniques.

For the larger offerings, it is usually split into retail and institutional tranches. The offer price for the institutional tranche is typically determined through a book-building exercise/process, while the offer price for the retail tranche is usually tagged to the institutional offer price. Where there are two offer tranches (i.e. retail and institutional), there is a possibility that the final offer price for the retail tranche could be lower than the offer price for the institutional tranche.

The issue

There are divergent views whether the issue of shares for the retail tranche at a consideration lower than the institutional offer price (some has referred this different as a “discount” to retail investors) is within the scope of IFRS 2 *Share-based Payment*.

Mechanism to determine the institutional offer price and retail offer price

Institutional offer price

After the issuance of an IPO prospectus, the institutional offer price is typically determined through a book-building exercise[4].

[4] In cases where there are cornerstone investors, this may create different sub-institutional price.

During the book-building exercise, the prospective investors will be invited to bid for portions of the institutional offering by specifying the price and number of offer shares that they would be prepared to acquire. Upon completion of the book-building exercise, the institutional offer price will be fixed in consultation with the “bookrunners” or “global coordinators”, where relevant. This price fixing event occurs after the close of the offer.

Settlement by the institutional investors is only required after they have been informed of their allocation.

Retail offer price

Unlike the institutional tranche, retail investors are required to pay for the shares at the time of application. A refund will be made if they are unsuccessful.

The retail price is required to be stated in the prospectus. This precedes the fixing of the institutional price. As such, the retail offer price stated in the prospectus is an indicative retail offer price, i.e. in the event the institutional offer price is lower, a refund will be made (so that the final retail offer price will be equal to the institutional offer price).

However, in the event the institutional offer price is higher, the indicative retail offer price represents the ceiling price that a retail investor is required to pay for the shares. This is because it is not practical (in terms of timing or logistics) to request for additional payment from retail investors.

As such, to fix the indicative retail offer price, the Managing Underwriter will carry out a price discovery process, where a research on the demand of the shares offered in the market is conducted. The indicative retail offer price is determined and agreed after taking into consideration factors like the nature of business, operating history, competitive strengths, business strategies and the results of the price discovery process.

Although the final retail offer price is typically set at a price equal to the lower of the institutional price and the indicative retail offer price (thus the indicative retail offer price is always the ceiling price for reasons stated above), there could be circumstances the Issuer may wish to give a small discount to the retail investors (comparative to the institutional investors) so as to encourage subscriptions from

the public if the Issuer wants a larger retail investors profile[5]. Under such circumstances, the final retail offer price will be set at a price equal to the lower of the indicative retail offer price and (100% - x%) of the institutional offer price.

In summary, the final retail price could be different from the institutional price due to the following two situations:

(a) Situation 1 – unintentional difference arising from the book-building process.

(b) Situation 2 – intentional difference arising from discount given to retail investors as indicated in the prospectus.

Situation 1 – unintentional difference

The final retail offer price is set at a price equal to the lower of the indicative retail offer price and the institutional offer price

Illustration

An IPO comprise of the following offers:

- Institutional offering at the price to be determined by way of book-building; and
- Retail offering at the lower of RM4.80 per share and 100% of the institutional offer price.

Assuming that the institutional offer price is set at RM5.00 per share by way of book-building, the retail offer price shall remain at RM4.80 per share, being the lower of RM4.80 and 100% of the institutional offer price (RM5.00 x 100% = RM5.00).

In this situation, there is no refund to the retail investors.

Issue:

Does the price differential of RM0.20 [RM5.00-RM4.80] represent payment for goods or services received?

[5] An applicant must have at least 25% of the total number of shares or units for which listing is sought in the hands of a minimum number of 1,000 public shareholders or unit holders holding not less than 100 shares or units each (source: Bursa Malaysia Main Market Listing Requirements Chapter 3 Admission).

Situation 2 – intentional difference

The final retail offer price is set at a price equal to the lower of the indicative retail offer price and a fixed percentage, say 95%, of the institutional offer price

> ***Illustration***
>
> An IPO comprise of the following offers:
>
> - Institutional offering at the price to be determined by way of book-building; and
> - Retail offering at the lower of RM4.80 per share and 95% of the institutional offer price.
>
> Assuming that the institutional offer price is set at RM5.00 per share by way of book-building, the final retail offer price will be RM4.75 per share, being the lower of RM4.80 and 95% of the institutional offer price (RM5.00 x 95% = RM4.75).
>
> In such situation, RM0.05 per share will be refunded to the retail investors.

Issue:

Does the price differential of RM0.25 [RM5.00-RM4.75] represent goods or services received?

View 1: The price differential represents goods or services received

Proponents of View 1 believe that in the event the consideration received by an entity for the issue of equity instruments is lower than the fair value of the equity instruments, the entity is deemed to have received or will receive other consideration which could not be clearly identified. Such other consideration is termed as unidentifiable goods or services in IFRS 2.

Paragraph 2 of IFRS 2 states that in the absence of specifically identifiable goods or services, other circumstances may indicate that goods or services have been (will be) received, in which case IFRS 2 applies. BC18C of IFRS 2 also indicated the IASB position that it is not necessary to identify the specific goods and services received in return for the equity instruments granted to conclude that goods or services have been or will be received. Unidentifiable goods or services, by nature, are not specifically identifiable. Instead, it appears very much like a form of intangible benefits received or to be received by the entity which translates into “the reason” for the entity to issue equity instruments below its fair value.

By offering the shares to the retail investors at a price lower than the institutional investors, it may assist the Company to meet the minimum public shareholding spread of 1,000 public shareholders required under the Stock Exchange. This is an unidentifiable service. An expense should therefore be recognised.

As stated in paragraph 3A of IFRS 2, it appears that the price differential for both Situations 1 and 2 would fall within the scope of IFRS 2 unless there is clear evidence that the equity instruments are issued for a purpose other than for goods or services.

View 2: The price differential does not represent goods or services received

Proponents of View 2 believe that IFRS 2 does not “automatically” apply when the consideration received appears to be less than the fair value of the equity instruments granted.

It is a rebuttable presumption which can be overcome if it is clear that no goods and services were received. For this purpose the reason for the discount needs to be understood to determine whether there are goods and services involved. If there are none, IFRS 2 does not apply.

Situation 1 – unintentional difference

The indicative retail offer price is set prior to the determination of the institutional offer price and therefore the price differential (if any) is not considered as a discount given to the retail investors.

If the institutional offer price is set above the indicative retail offer price, this is probably due to a “misjudgement” by the Company and its advisor during the price discovery process. Furthermore, there is about a 3 week gap between the 2 events and market could have moved during that time thus resulting in a different risk appetite of the investors. Had the Company and its advisor been able to estimate the retail offer price accurately (i.e. indicative retail offer price equals to the institutional offer price), then there will be no price differential.

Given that the retail offer price is determined using judgment based on best available information and estimates, it is common for price differential to exist. This price differential is not due to any goods or services received from retail investors. Instead, it arose as a result of the inherent risk in the process of estimating the future value of the shares.

Situation 2 – intentional difference

The primary objective of the IPO is for the issuer to obtain financing and the discount is to attract the retail investors to subscribe for the shares so as to ensure that the public shareholding spread of 1,000 public shareholders will be met and hence ensuring the success of the IPO. Also, in some cases, the Issuer may want a larger retail investor's profile.

The transaction is a transaction with shareholders, whereby, under IFRS 10 *Consolidated Financial Statements*, when a parent of a 100% own subsidiary sells 20% of its interest in the subsidiary without loss of control, that transaction is considered as a transaction with shareholders in their capacity as shareholders (even though the buyer of this 20% interest was not a shareholder of this subsidiary at the point in time of the disposal transaction) - such transaction is clearly excluded from the scope of IFRS 2 (paragraph 4).

Accordingly, such "discount" is clearly not for goods or services and therefore does not meet IFRS 2 'share-based payment transactions' definition.

IFRS 2 Share-based Payment [*emphasis add*

Paragraph 2

An entity shall apply this IFRS in accounting for all share-based payment transactions, whether or not the entity can identify specifically some or all of the goods or services received, including:

(a) *equity-settled share-based payment transactions*,

(b) *cash-settled share-based payment transactions*, and

(c) transactions in which the entity receives or acquires goods or services and the terms of the arrangement provide either the entity or the supplier of those goods or services with a choice of whether the entity settles the transaction in cash (or other assets) or by issuing equity instruments,

except as noted in paragraphs 3A - 6. In the absence of specifically identifiable goods or services, other circumstances may indicate that goods or services have been (or will be) received, in which case this IFRS applies.

Paragraph 3A

A share-based payment transaction may be settled by another group entity (or a shareholder of any group entity) on behalf of the entity receiving or acquiring the goods or services. Paragraph 2 also applies to an entity that

(a) receives goods or services when another entity in the same group (or a shareholder of any group entity) has the obligation to settle the share-based payment transaction, or

(b) has an obligation to settle a share-based payment transaction when another entity in the same group receives the goods or services

unless the transaction is clearly for a purpose other than payment for goods or services supplied to the entity receiving them.

Paragraph 4

For the purpose of this IFRS, a transaction with an employee (or other party) in his/her capacity as a holder of equity instruments of the entity is not a share-based payment transaction. For example, if an entity grants all holders of a particular class of its equity instruments the right to acquire additional equity instruments of the entity at a price that is less than the fair value of those equity instruments, and an employee receives such a right because he/she is a holder of equity instruments of that particular class, the granting or exercise of that right is not subject to the requirement of this IFRS.