MALAYSIAN INSTITUTE OF ACCOUNTANTS

MALAYSIAN INSTITUTE OF ACCOUNTANTS
FINANCIAL REPORTING STANDARDS IMPLEMENTATION COMMITTEE
("FRSIC")

FRSIC Issue No. 36 [2010]

Accounting for Refunds Made to Subscribers on Adjustment to the Offer Price in an Initial Public Offering

The issue:

Entity A is having an IPO. A large portion of the shares is offered to Institutional investors. The remaining portion of the shares is offered to the general public at $5.00 per share payable in full upon application subject to a refund in the event of the final IPO price is lower than $5.00 per share.

The IPO price will equal the lower of:

a) $5.00/share; and
b) 95% of the Institutional price determined by way of book building.

The book building process is conducted by inviting prospective institutional investor to bid for portions of the Institutional offering by specifying the number of shares that they would be prepared to acquire and the price that they would be prepared to pay for the acquisition. Upon completion of the book building process, the Institutional Price will be fixed by the Company.

Say that the Institutional price is decided at $5.20, hence the IPO price to the general public will be $4.94 and $0.06 per share will be refunded to the successful applicant from the general public. If the Institutional price is decided at $5.50, the IPO price to the general public will be $5.00.

Since the shares subscribed by the general public will be issued at a discount of the institutional price, will such discount be considered within the scope of IC Interpretation 8/FRS 2?

Current accounting practice as observed by the Submitter:

The IPO done by "a major company in Malaysia" last year has accounted for discount as an expense. Other IPOs in the market have not applied the same principle. A clarification is needed urgently.

Reasons for the FRSIC to address the issue:

a) Is the issue widespread and practical?
   The issue is widespread and will be affecting a lot of IPOs.

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b) Does the issue involve significantly divergent practices (either emerging or already existing in practice)?
Yes, there is a divergent observed.

c) Would financial reporting be improved through the elimination of the diversity?
Yes

Submitter's proposal or recommendation to address the issue:

None at the moment.

Submitted on:

5 May 2010

Corresponding Guidance:

PROJECT WAS DISCONTINUED.

The FRSIC's deliberation: FRSIC decided not to continue deliberation of the issue based on the decisions of the IFRIC November 2013 meeting. In the meeting, the IFRIC opined that the equity instruments issued should be recognised in equity in accordance with IAS 32 and be measured at the fair value of the consideration received. In view that the existing IFRS requirements, sufficient guidance exists and that neither an Interpretation nor an amendment to Standard was necessary, the IFRIC tentatively decided not to add this issue to its agenda. Therefore, the FRSIC agrees that the same approach should be considered for the issue.

[Last updated: 9 January 2014]

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