

IFRS 2

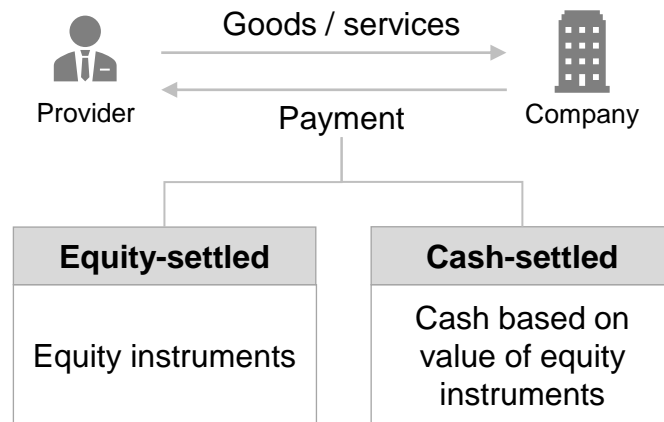
Accounting for share-based payments

IFRS 2 provides guidance on how share-based payments shall be classified, valued, and accounted for

Type of settlement

Equity-settle: grant of award requiring settlement in equity instrument

Cash-settled: grant of instrument redeemable at counterparty's option

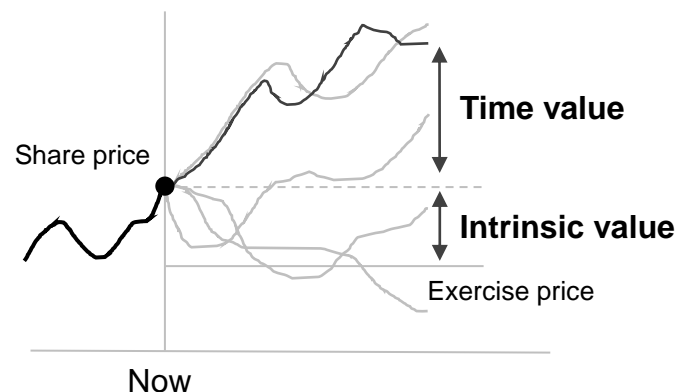


Examples of equity instrument: shares, call options¹, and redeemable shares

Valuation of options

Intrinsic value: current share price over option exercise price

Time value: possibility for option value to increase before expiry

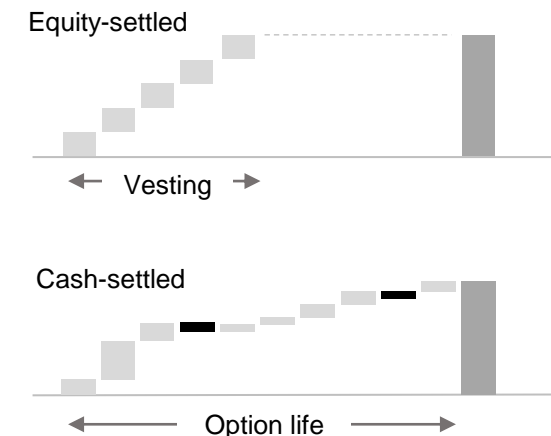


Black-Scholes and binomial models are commonly used in option valuation

Accounting of expenses

Equity-settled: one-off valuation of options expensed over vesting period

Cash-settled: annual re-valuation with change in value expensed over option life



Expenses based on cash-settled are more volatile and stretch over longer period

1. This document focuses on how share options would be accounted for as share-based payment under IFRS 2.

Illustrative example of option value

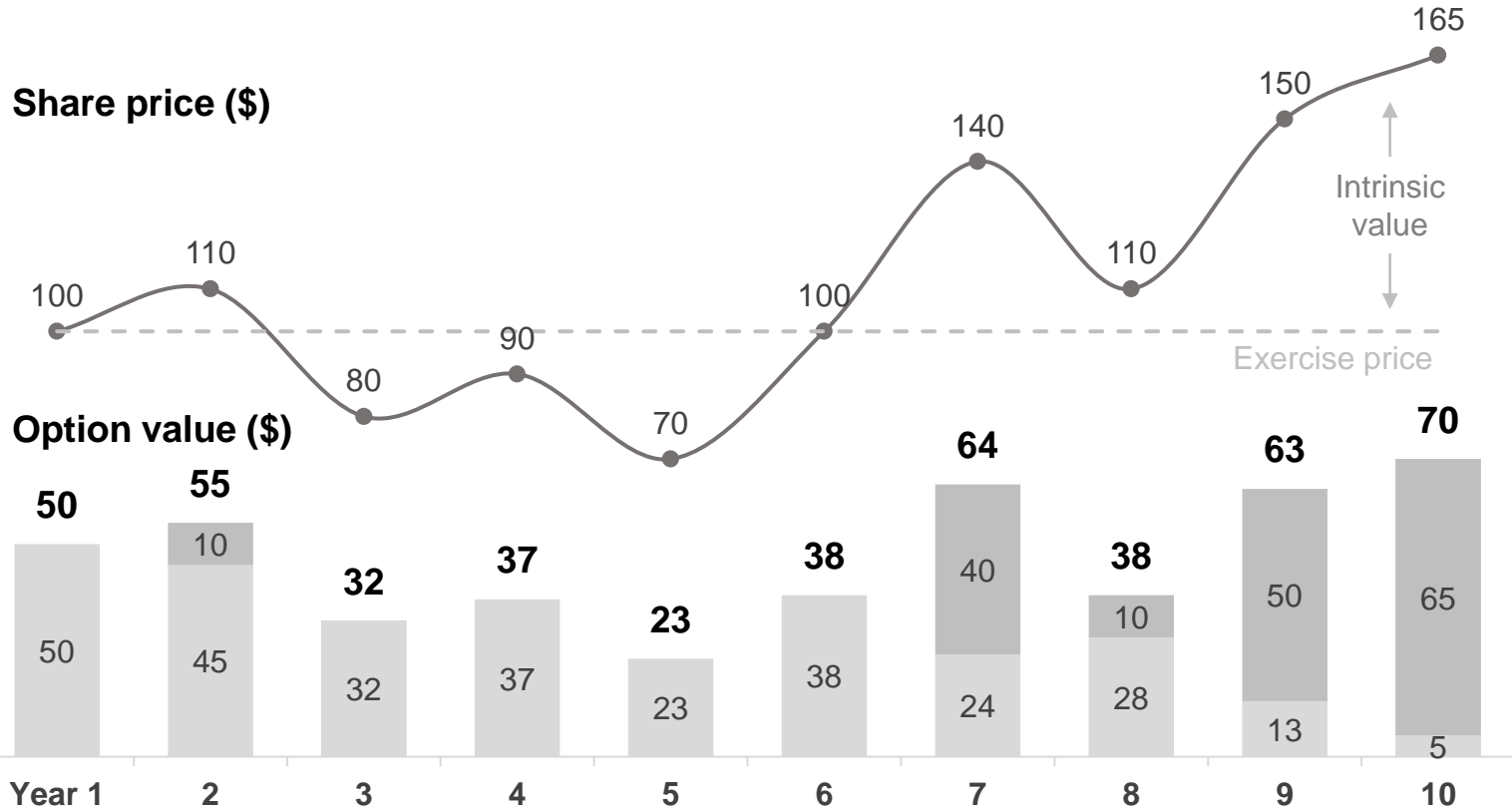
10,000 options with 10-year option life and 5-year vesting period

1

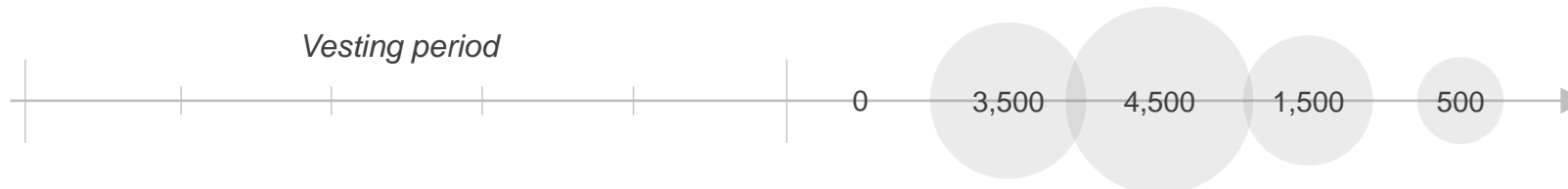
At-the-money option granted at initiation

2

Time value represents entire option value in the beginning



Options exercised



3

Intrinsic value represents how much in-the-money an option is at any given point in time

4

Intrinsic value represents the majority of in-the-money option value towards expiry

Time value diminishes as remaining option life shortens

Assuming no forfeiture, total number of options exercised = 10,000

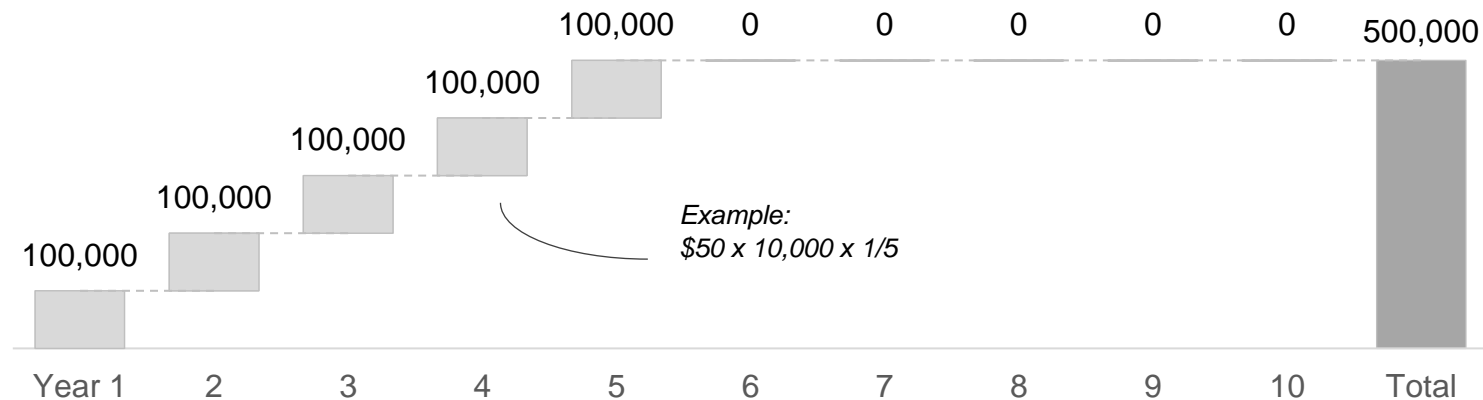
Comparison of expense recognition

Equity-settled vs cash-settled transactions

Equity-settled

Expense of the year =
Pro-rata share of total
expense

Total expense =
Total # of option x
option value on grant date

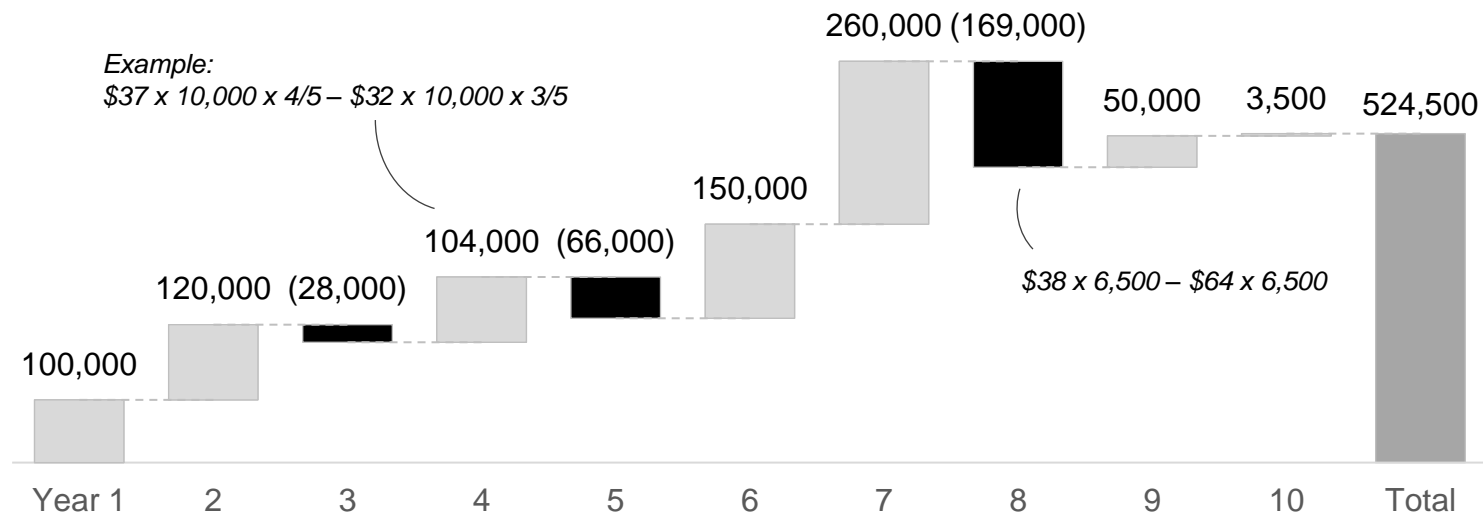


- One-off valuation at option grant
- Expense over vesting period
- Lower total expense for upward trending share price

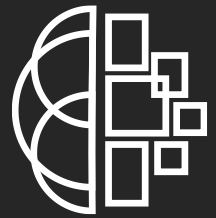
Cash-settled

Expense of the year =
(BoY # option x
option value) -
previous year liability

Liability of the year =
o/s # of option x
option value



- Annual re-valuation
- Expense over whole option life
- More volatile P&L impact depending on share price movement



simon@smnkoo.com