



## corporate | FRS 20 & IFRS 2 - share-based payment

### team



**David Cox**  
*Partner*  
020 7969 5564  
dcox@haysmacintyre.com



**Simon Wilks**  
*Partner*  
020 7969 5525  
swilks@haysmacintyre.com

FRS 20 and its identical international equivalent, IFRS 2, deal with situations where entities grant shares or share options to:

- employees – as a feature of their remuneration package
- suppliers – as consideration for the provision of consultancy services or for the receipt of goods.

FRS 20 must be applied to grants of shares or share options that were granted after 7 November 2002 and had not yet vested at the relevant effective date of FRS 20 (1 January 2005 for unlisted companies with a 31 December year-end).

### what to do!

The accounting and valuation of share options can be a complex area. If you need advice then please contact us and we will arrange a meeting to explain the implications and how we can assist you.

### measuring share options

FRS 20 requires companies that grant share options to their employees to estimate the fair value of those options and to recognise that value as a charge in the profit and loss account over the “vesting period”. The vesting period is the period during which all the specified vesting conditions of an option agreement are satisfied. Vesting conditions can include a specified period of service or performance targets.

The primary objective is to account for the employee services received as payment for the issue of shares or options.

FRS 20 does not stipulate how to value these options however it does state that companies should use an appropriate valuation technique such as an option pricing model.

Option pricing models aim to measure the fair value by taking into account, as a minimum, the following factors:

- exercise price
- current price
- life of the option
- expected volatility

haysmacintyre t 020 7969 5500  
Fairfax House f 020 7969 5600  
15 Fulwood Place  
London e marketing@haysmacintyre.com  
WC1V 6AY w www.haysmacintyre.com

---

- dividends expected
- risk-free interest rate.

The debit side of the entry is a charge to profit and loss account in determining operating profit. The credit side is an increase in equity (i.e. P&L reserve or Other reserve).

## cash-settled share based payment transactions

An example is where an employee is promised a cash reward based on the future movement of the entity's share price. For such transactions, the employee's services received by the entity and the corresponding liability incurred should be measured at the fair value of the liability. The entity should remeasure the liability annually and at the date the liability is settled.

The debit side of the entry is a charge to the profit and loss account in determining operating profit. The credit side is an increase in creditors.

## share-based payment transactions with cash alternatives

Where an entity has a choice of issuing shares or paying cash then the entity shall recognise a liability if it determines that it has an obligation to settle the liability in cash. If on settlement the entity issues shares rather than paying cash then the value of the liability should be transferred to equity.

## unlisted entities

Share-based payments in unlisted entities can be more difficult to value due to the lack of a readily available market price or historical information to consider when estimating expected volatility.

Management should consider the method used to calculate the exercise price for share options granted (this may be calculated based on the deemed current share price). Input variables such as historic volatility may be obtained from similar sized listed company within the same sector.

## disclosures

The disclosure requirements are split into three main areas:

- the nature and extent of share-based payment arrangements
- how the fair value of the goods or services received, or the fair value of the equity instruments granted, during the period were determined
- the effect of share-based payment transactions on the entity's profit or loss for the period and on its financial position.

haysmacintyre  
Fairfax House  
15 Fulwood Place  
London  
WC1V 6AY

t 020 7969 5500  
f 020 7969 5600  
e [marketing@haysmacintyre.com](mailto:marketing@haysmacintyre.com)  
w [www.haysmacintyre.com](http://www.haysmacintyre.com)

---

## small companies

Certain small companies are able to adopt the FRSSE. The current version of the FRSSE, which is effective from January 2007 has an exemption from FRS 20 and requires a disclosure-only approach for share options.

## about haysmacintyre

haysmacintyre, Chartered Accountants and tax advisers, comprises 24 partners and 150 staff based in Holborn, London. It provides high quality auditing and assurance, business and personal taxation, corporate finance, financial planning and other business support services.

Around 40% of the firm's business is within the corporate sector – small and medium sized enterprises, many of which are in the property, media and entertainment, technology, sports and business services sectors. The firm acts for a number of listed companies and assists new companies raise initial funds on the capital markets and through private equity. 25% of the firm's business is for charitable and not for profit organisations and the remainder is for professional practices and private individuals – whether senior executives, entrepreneurs or those with significant land or wealth at home or overseas.

haysmacintyre is a founding member of MSI Global Alliance (MSI), an international alliance of independent legal and accounting firms, with 250 members in 100 countries.



**Disclaimer:** This datasheet has been produced by the partners of haysmacintyre and is for private circulation only. Whilst every care has been taken in preparation of this document, it may contain errors for which we cannot be held responsible. In the case of a specific problem, it is recommended that professional advice be sought. The material contained in this datasheet may not be reproduced in whole or in part by any means, without prior permission from haysmacintyre.