

Season 2005

# FRS 20 / IFRS 2

## Share option valuation

News and views from PKF  
Corporate Finance

**With the introduction of International Financial Reporting Standards and FRS 20 in the UK the majority of employee share options granted after 7 November 2002 will need to be valued.**

Companies that provide share options to employees as part of their overall reward package must now recognise the cost of these options in their profit & loss accounts.

IFRS 2 includes detailed guidance on the valuation of share options. FRS 20 replicates IFRS 2 bringing UK GAAP into line with International Financial Reporting Standards.

Following the introduction of EU regulations all listed entities will need to apply International Financial Reporting Standards for accounting periods beginning after 1 January 2005, although this has been delayed for AIM listed companies. FRS 20 will apply to all entities for accounting periods beginning after 1 January 2006.

The valuation of options is a complicated technical area of accounting, requiring twofold expertise. Firstly, it is vital to have an

understanding of the statistical principles underlying the various valuation models, and secondly it is necessary to have a detailed knowledge of the relevant accounting standard.

Some of the inputs to the valuation model may be difficult to estimate and could have a major impact on the ultimate charge to the profit and loss account. Under IFRS 2 the terms and conditions attached to a share option may need to be treated differently according to their nature.

### How PKF can help

PKF have assisted a number of listed companies to make the transition to International Financial Reporting Standards. We provide clear, comprehensive advice on the requirements of IFRS 2 and supply our clients with illustrative valuations of share options.

You should note that your existing auditors may be unable to assist you as to the calculations required under IFRS 2, since this would involve them auditing their own work, creating an inherent conflict of interest. Our independent and

objective approach enables you to overcome this obstacle.

Partner-led and cost effective, PKF's service will provide you with an illustrative guide to the factors that affect share option valuations. We will provide you with a report tailored to your own requirements, which will include details of:

- Guidance on the requirements of IFRS 2/ FRS 20
- Valuation and disclosure issues
- Issues affecting the choice of share option valuation model
- Issues affecting the inputs to a valuation model
- The effect on valuation of the different choices available under the standard
- The effect of vesting and other conditions on the charge to the profit and loss account

- Details of the accounting entries required to comply with the relevant accounting standards.

PKF are also able to provide a working model for each share option that requires valuation, highlighting the estimates that will need to be

reviewed on an annual basis and re-calculating the charge to the accounts each year based on the latest estimates.

### **Peace of mind**

We offer our services on a fixed-fee basis, agreed with you in advance,

so that you know the cost to you before the work begins. Our proven expertise, together with our in-depth knowledge of the accounting standards, will leave you secure in the knowledge that your company is fully compliant in this area.

**For more information on any of the above issues, go on-line to [www.pkf.co.uk](http://www.pkf.co.uk) or contact Stephen Bayfield Tel 020 7065 0316 E-mail [stephen.bayfield@uk.pkf.com](mailto:stephen.bayfield@uk.pkf.com) Peter Gardner Tel 020 7065 0371 E-mail [peter.gardner@uk.pkf.com](mailto:peter.gardner@uk.pkf.com) Fax 020 7065 0527**

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