

Accounting for employee share-based payments

Relieving the burden

Background

The fair value accounting standards for employee share-based payments can cause a headache for many finance departments. Our team has a thorough knowledge of IFRS2 and FRS20 and has helped many companies understand the requirements.

Our client base ranges from FTSE 100 companies through to AIM listed and unlisted companies.

We have a suite of modelling tools, including Black-Schöles, binomial models, and Monte Carlo models, which allow us to value even the most complex awards efficiently.

How LCP can help you

Our approach is tailored to meet the particular needs of each client.

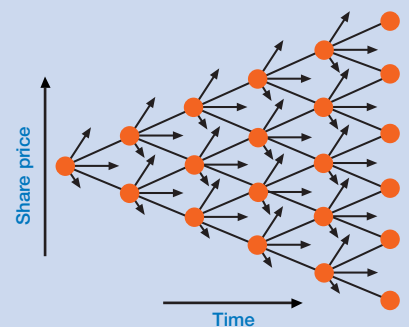
- Our suite of models allows us to use the most cost-effective solution
- We offer a full range of services including provision of full accounting entries with draft disclosures
- Alternatively, we can work with your finance team to provide fair value results for you to input to your own accounting systems
- Our reports have passed inspection by a wide range of auditors including all the 'Big 4'
- We can calculate accounting entries for deferred tax and NI provisions in respect of share plans

Next steps

To find out most about LCP's employee share plan services, please visit our website www.lcp.uk.com or call **Matthew Pearlman** on +44 (0)20 7439 2266 or **Ian Gamon** on +44 (0)1962 870 060.

Main features of IFRS2/FRS20

- Fair value of the award is determined at date of grant
- The fair value takes account of the volatility of the share price and the expected exercise behaviour of the award-holders
- Additional complexity if there are performance-based vesting conditions
- This fair value is expensed in the profit and loss over the vesting period of the award
- Allowance is made for expected turnover of employees
- If awards are settled in cash, accounting is more complex.



Our actuarial binomial model takes the underlying mathematics of the Black-Schöles formula and builds upon it to allow for the specific features of employee share options.

About LCP

Lane Clark & Peacock LLP (LCP) is a limited liability partnership and offers a full range of actuarial, benefit consultancy and risk services to clients in the UK and internationally through LCP Trustee Consulting, LCP Corporate Consulting, LCP Financial Dynamics Practice, LCP Insurance Consulting and LCP Investment Consulting.

The **LCP Trustee Consulting** practice focuses on providing advice on pensions issues that are of concern to trustees, such as governance, implementing the new pension scheme funding regime, assessing the adequacy of contribution plans, advising on investment issues, trustee governance, risk management, communications and risk insurance, assessing the strength of the employer covenant, and advising on the issues surrounding insolvency and the winding up of pension schemes. The practice also provides a client focused quality Pensions Administration service.

The **LCP Corporate Consulting** practice specialises in advising companies on how best to manage their pension schemes' finances through contributions, investment policy and other approaches. The practice also advises companies on how best to manage the impact of their pension schemes on company finances, how to represent pension schemes in company accounts, ensuring that UK and international benefit plans attract and retain employees effectively, project management, scheme design, DC, risk insurance, global management of costs and risks and managing benefit issues in mergers and acquisitions.

The **LCP Financial Dynamics** practice specialises in offering a new dimension to risk appraisal, business modelling and valuations of companies. The practice uses advanced financial models to give companies a competitive advantage when considering business decisions.

The **LCP Insurance Consulting** practice is a leading non-life actuarial consultancy. We provide a full range of services to insurers and reinsurers, including advice on all aspects of Solvency II.

The **LCP Investment Consulting** practice specialises in advising both corporate sponsors and pension scheme trustees on the appropriate investment policy, as well as on the broader areas of risk management. The practice is able to identify the potentially complex and conflicting needs, explain clearly how to address those needs and help with the implementation of the chosen solution.

LCP employs more than 500 staff including over 200 full and part qualified actuaries. We serve a wide range of clients around the world, including some of the largest global multinationals, such as Pearson, Volkswagen and Whitbread. We also serve a number of private equity houses, charities and unions.

If you would like assistance on any of these issues, please call your normal LCP contact. Alternatively, call Matthew Pearlman or Ian Gamon on +44 (0)20 7439 2266 or visit our website: www.lcp.uk.com.



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All partners are members of Lane Clark & Peacock LLP. A list of members' names is available for inspection at 30 Old Burlington Street W1S 3NN, the firm's principal place of business and registered office.

The firm is regulated by the Institute of Actuaries in respect of a range of investment business activities. LCP is part of the Alexander Forbes group of companies, employing over 4000 people internationally.

www.lcp.uk.com www.lcpeurope.com

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