



UK Executive Pay & Governance

IFRS2 valuations

The accounting cost associated with operating share incentive plans is governed by International Financial Reporting Standard 2: Share-based Payment (commonly referred to as “IFRS2”). In essence, under IFRS2 a company must take a charge to its income statement which reflects the “fair value” of all share awards granted to its employees. This includes share awards granted under an all-employee plan such as an SAYE Scheme or Share Incentive Plan (both UK tax advantaged arrangements), as well as discretionary awards made to more senior executives under a “Performance Share Plan”, option scheme or other similar long-term incentive plan.

Therefore, it is important that companies understand the potential accounting cost of operating their share plans prior to implementation. This can be a challenging process, as the accounting rules are somewhat complicated and can be rather counter-intuitive. For example, the accounting treatment of an LTIP award that is subject to a financial performance condition (e.g. Earnings per Share) is quite different to an award granted under the same plan but with a “market-based” performance condition such as Total Shareholder Return. The former creates no charge if the EPS target is not met, whilst the latter creates a charge irrespective of whether the TSR target is met.

We have a dedicated team of experts that provide our clients with a full understanding of the potential accounting costs of all share-based incentives. Our clients’ auditors cannot supply this service directly to them, but can audit our analysis. We can:

- Create the basic award pricing model which will take account of all key variables (e.g. type of award, duration of award, likely forfeiture rates, historical volatility etc)
- Vary the accounting charge based on the nature of the performance condition (if any)
- Support clients in assessing how the potential accounting charge can be changed by, for example, altering award levels/participant populations etc
- Assess how the charge should be spread over the vesting period of awards

In short, we can guide clients through this complex area in a transparent, easy to understand manner.

Want to know more?

Please contact:

Rob Burdett

m: 07979 537 326

rob.burdett@kornferry.com

Simon Garrett

m: 07748 328 560

simon.garrett@kornferry.com

Deborah Hall

m: 07495 796 619

deborah.hall@kornferry.com

Jonathan Hutchings

m: 07408 802 787

joanthan.hutchings@kornferry.com

Chris Niland

m: 07779 270 334

chris.niland@kornferry.com

Andrew Udale

m: 07770 720 888

andrew.udale@kornferry.com

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