

**Deloitte.**

Share-based payment  
- new direction?

- *new rules*

- *new considerations!*

International Financial Reporting  
Conversion Services  
- Interdisciplinary Competences

# Share-based payment - new direction?

**New international financial reporting standards, new tax rules and new recommendations from stock exchanges around the world give rise to many considerations. If your business needs a better understanding of the new rules, you can get an update in this booklet, or contact us for further assistance.**

For the first time, an international standard now exists which requires that share-based payment be measured at fair value and recognised in profit or loss. It was published on 19 February 2004 in the form of the new International Financial Reporting Standard, IFRS 2.

## **Based on an interdisciplinary analysis**

Granting share-based payment should be based on interdisciplinary analysis of the consequences for the entity and its shareholders. The individual terms of the individual arrangement are for instance decisive for the accounting and tax treatments – including measurement of the arrangement.

## **Competent considerations and answers**

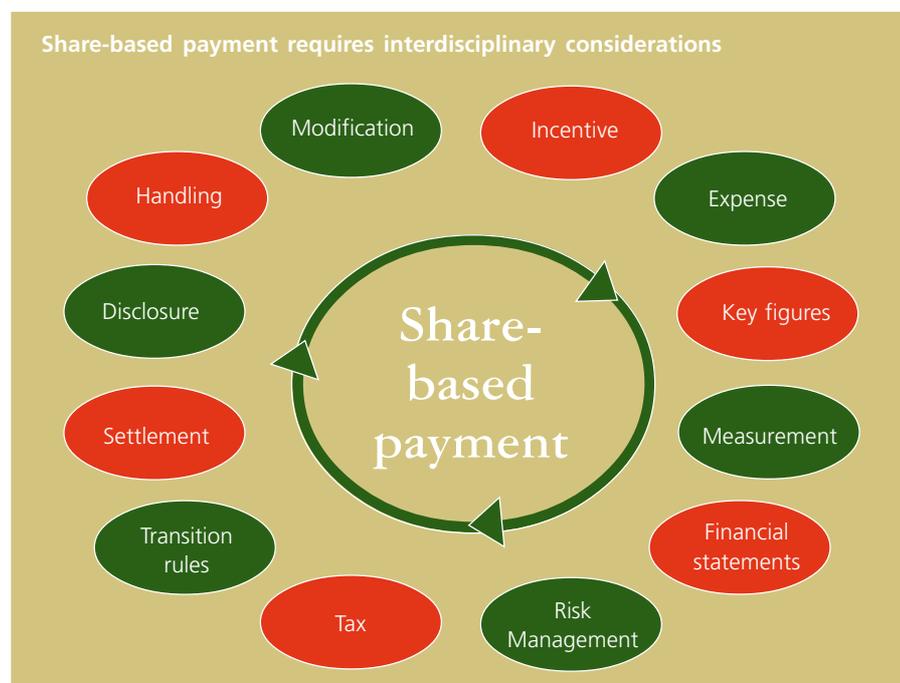
Share-based payment is especially a matter of making a general decision of the entity's incentive structure, however, share-based payment also requires competent considerations and answers to a number of interdisciplinary questions. Below are some of the issues that management should consider.

## Recognition of share-based payment in profit or loss

The new International Financial Reporting Standard requires share-based payment to be measured at fair value at grant date and recognised as an expense in profit or loss during the vesting period if any. The requirements are effective for annual periods beginning on or after 1 January 2005. However, the requirements may already today affect the entity's results. In certain situations, the transitional provisions require restatement of comparative figures, just as they may affect the structure of both existing and future arrangements. The new standard gives rise to a number of questions:

### **Share-based payment and financial statements – new direction?**

- ✓ Does the entity incur a cost without any ultimate benefit to the employee?
- ✓ When and how are results and notes affected?
- ✓ How are key figures affected?
- ✓ Can existing share-based payment arrangements be changed without affecting results?
- ✓ How are equity and comparative figures affected by existing arrangements?



## Tax considerations - new opportunities

New tax legislation regarding share-based payment has been promulgated by a number of countries around the world. Under some of the new legislation, the employer and the employee may choose between different tax rules. This provides the opportunity for selecting the tax rules that best fit the employer and the employees. Under certain circumstances, taxation of share-based payment can be more attractive to the employee in comparison to the taxation of ordinary salary. Tax legislation concerning share-based payment arrangements have, in many countries, been amended several times in the past few years. Therefore, it may be necessary to reassess the existing arrangements. For example, the tax rules give rise to the following questions:

### Share-based payment and tax – new direction?

- ✓ Should the existing share-based payment arrangements be adjusted due to new tax rules?
- ✓ Does the entity receive a deduction?
- ✓ How are the entity's employees taxed?
- ✓ Can existing share-based payment arrangements be changed without tax implications?
- ✓ How do taxes affect the financial statements?

## Measurement of share-based payment - a great challenge

For many entities measurement is complicated, and there are many potential pitfalls. The reason is, not least, the application of mathematical models and the determination of the underlying variables, which are challenging to many. Complete understanding of the individual factors in the arrangements and their influence on the calculations is absolutely crucial. Fair value and the basis of calculation are, for listed entities, to be disclosed in the financial statements and to stock exchanges around the world when granting new arrangements. Therefore, there are extensive requirements to documentation of the fair value calculation.

Errors in calculations may lead to considerable unforeseen influence on the entity's balance sheet and results – therefore, it is important that the entity considers questions such as:

### Share-based payment and measurement – new direction?

- ✓ How is fair value calculated in accordance with the new standard?
- ✓ Which most important factors affect fair value?
- ✓ How are estimated life and volatility determined?
- ✓ How do individual factors affect measurements?
- ✓ How can financial risks be limited?

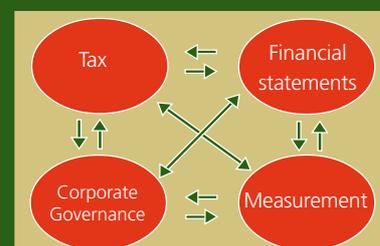
## IFRS Conversion Services - special focus on share- based payment

IFRS Conversion Services assists businesses in implementing IAS and provides advisory services on the individual standards according to individual requirements. Our services related to share-based payment are integrated, global and interdisciplinary solutions, which involve at least experts from Audit, Tax and Financial Advisory Services (measurement). Our methods and tools have been developed on the basis of significant experience in handling assignments on share-based payment. Subject to independence considerations, we supply interdisciplinary competency - a competency which we embed in our clients' businesses.

### Gain control of the challenges by meeting with us

IFRS Conversion Services offers to give a brief presentation at which we discuss with management the challenges of share-based payment in comparison with the business' existing and future share-based payment arrangements.

If you are interested in further information as to how we can advise you on implementation of share-based payment, please contact your local Deloitte auditor or the Deloitte Leader of IFRS Conversion Services in your country by visiting us on [www.deloitte.com](http://www.deloitte.com). You are also welcome to contact one of members of Global IFRS Leadership Team - please see overleaf.



# Global IFRS Leadership Team

## IFRS Global Office

### Global IFRS leader:

Ken Wild  
kwild@deloitte.co.uk

## IFRS CENTRES OF EXCELLENCE

### Americas:

D. J. Gannon  
iasplusamericas@deloitte.com

### Asia-Pacific:

Stephen Taylor  
iasplus@deloitte.com.hk

### Europe-Africa:

#### JOHANNESBURG

Graeme Berry  
iasplus@deloitte.co.za

#### COPENHAGEN

Stig Enevoldsen  
dk\_iasplus@deloitte.dk

#### LONDON

Veronica Poole  
iasplus@deloitte.co.uk

#### PARIS

Laurence Rivat  
iasplus@deloitte.fr

**[www.iasplus.com](http://www.iasplus.com)**

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