

# Equity Expensing Valuation

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The implementation of IFRS required Australian companies to expense all employee equity plans under the AASB 2 standard. For larger listed companies these expenses can run into tens of millions of dollars annually. In addition, determining a “fair value” for employee equity vehicles can be fraught with complexity, and may require assumptions on future share price volatility, future dividend yields, forfeiture rates, likely employee exercise behaviour, etc. In addition, if the plan is subject to performance requirements, random probability models beyond the capacity of spreadsheets need to be specially developed and programmed. Typically, these expensing models are outside most current accountants’ and auditors’ capabilities. Lastly, equity design is frequently an iterative practice, requiring design adjustments to meet cost constraints imposed by the board. For these reasons, Guerdon Associates provides an equity valuation and expensing service. The service will, for any equity design:

- Summarise the key elements of the design that impact expense;
- Describe the most appropriate valuation model;
- Note the key input variables;
- Describe assumptions used and the rationale for these assumptions;
- Summarise the outcomes;
- Provide an expense value for each employee equity instrument used;
- Provide a report to enable efficient expense auditing and independent certification .

Contact us to discuss equity expensing valuation.