

## Demand for expertise to calculate employee equity

Author: Mark Fenton-Jones  
Date: 29/04/2005  
Words: 299  
Source: AFR

Publication: The Financial Review  
Section: Professional Services  
Page: 60

The introduction of international accounting standards has presented innovative software producers with a new opportunity.

Under the accounting standards, employee share and option benefits will need to be valued and disclosed in accounts prepared from July 1, 2004 and expensed in the profit and loss accounts of those companies prepared from January 1, 2005.

And according to Melbourne-based Remuneration Strategies Group, the Australian Securities and Investments Commission will be conducting spot checks on the value of options and other employee equity disclosed in the accounts of companies listed on the Australian Stock Exchange.

For some companies grappling with the preparation and lodgement of their annual company accounts for the year ended June 30, 2005 with ASIC and the ASX the first-time valuation of their employee share and option benefits will come as a bit of a shock.

The valuation of employee share options and all forms of employee equity needs to be based on the methods outlined in the standard which is the Black and Scholes model or a binomial model, with a careful and detailed calculation of the valuation volatility factors.

RSG reckons that its "equity calculator", which incorporates a 250-step structure that allows for inclusion of employee vesting conditions, employee turnover rates and early exercise as required by the accounting standards, will help companies that have left their calculations to the last minute.

The initial impact will fall on so-called disclosing entities like ASX-listed companies and companies issuing prospectuses, but ultimately it will apply to nearly all companies of all sizes under the expensing requirements.

"If picked up under an ASIC spot check, companies will need to justify their employee option and other equity valuation calculations to ASIC investigators," said John Day, a director of RSG.