



**SHARE-BASED PAYMENTS**  
**– a survey**

**October 2016**

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**To contribute to Ireland having a strong regulatory environment in which to do business by supervising and promoting high quality financial reporting, auditing and effective regulation of the accounting profession in the public interest**

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## 1. Introduction

IAASA, Ireland's accounting enforcer, has undertaken a desk top survey of issuers' equity settled share-based payment disclosures. This publication presents the results of that desk top survey.

International financial reporting standards ('IFRS') define an equity settled share-based payment transaction as a transaction in which the entity:

- (a) receives goods and services as consideration for its own equity instruments (including shares or share options), or
- (b) receives goods or services but has no obligation to settle the transaction with the supplier<sup>1</sup>.

IAASA's survey is based on the 2015/16 annual financial reports published by all 27 equity issuers falling within IAASA's financial reporting review remit together with Allied Irish Banks plc, a debt issuer (see Appendix).

In undertaking this desk top survey, additional information was not sought from the selected issuers.

## 2. Purposes of the survey

The primary purposes of the survey were to:

- (a) determine the quantum of share-based payments that the sampled issuers' have recognised in their financial statements, together with a high-level review of the type of information disclosed by issuers regarding their share-based payment arrangements; and
- (b) provide preparers, auditors and users of financial statements with information to encourage discussion and stimulate debate on equity settled share-based payment schemes that are utilised by issuers.

## 3. Share-based payments survey results

### *(1) Share-based payment charges/credits and Share option reserves*

IAASA's desk top survey identified 24 issuers which recognised share-based charges/credits in their most recent financial statements. The total net share-based payment charge recognised by those 24 issuers included in this survey amounted to €183m (2014/15: €121m). The survey also indicated that the total share option reserve recognised by issuers in their most recent financial reports amounted to €437m (2014/15: €374m).

Table 1 list each issuer's share-based payment charge/credit, together with their respective amount of share option reserve recognised in issuers' most recent annual financial statements.

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<sup>1</sup> Appendix A of IFRS 2 *Share-based Payment*

**Table 1 – Issuers’ share-based payment charge/credit and share option reserve amounts**

No.	Issuer	Share-based payment cost/(credit)	Share option reserve
		€m <sup>2</sup>	€m
1	Cairn Homes plc	29	29
2	Smurfit Kappa Group plc	28	168
3	CRH plc	27	Included in “Other Reserves”
4	Green REIT plc	21	21
5	Paddy Power Betfair plc	17	33
6	Kerry Group plc	9	31
7	Glanbia plc	9	15
8	Kingspan Group plc	8	30
9	Grafton Group plc	6	12
10	Ryanair Holdings plc	6	9
11	Greencore Group plc	6	12
12	Hibernia REIT plc	6	6
13	DCC plc	3	19
14	UDG Healthcare plc	2	5
15	Aryzta AG	2	0
16	Mainstay Medical International plc	1.5	2.5
17	Irish Residential Properties REIT plc	1	1.5
18	Datalex plc	1	3
19	C&C Group plc	0.5	6
20	Independent News and Media plc	0.4	0.4
21	IFG Group plc	0.3	0.5
22	Irish Continental Group plc	0.1	3
23	Aminex plc	nil	3
24	FBD Holdings plc	(0.2)	7
25	Kenmare Resources plc	(0.6)	20
	<b>Total</b>	<b>183</b>	<b>436.9</b>

*(2) Option pricing models used by issuers*

Entities use option pricing models to determine the fair value of the options granted during the year.

Table 2 below sets out the option pricing models used by the issuers included in this survey:

<sup>2</sup> For issuers presenting their financial statements in Sterling i.e. Grafton Group plc, and IFG Group plc, amounts have been translated into euro at £0.73395:€1, DCC plc amounts have been translated into euro at £0.79155:€1 and Greencore Group plc amounts have been translated into euro at £0.73475:€1 c) and for issuers presenting their financial statements in US Dollars Datalex plc, Aminex plc, Kenmare Resources plc and Mainstay Medical International plc, amounts have been translated into euro at US\$1.0887:€1

**Table 2 – Option pricing models used by issuers**

No.	Issuer	Option Pricing Model
1	Aryzta AG	Black-Scholes Model
2	Aminex plc	Binomial Model
3	C&C Group plc	Black-Scholes Model
4	Cairn Homes plc	Monte Carlo Simulation Model
5	CRH plc	Monte Carlo Simulation Model and TSR pricing model
6	Datalex plc	Black-Scholes Model
7	DCC plc	Monte Carlo Simulation Model
8	FBD Holdings plc	Monte Carlo Simulation Model
9	Glanbia plc	Binomial Model and Monte Carlo Simulation Model
10	Grafton Group plc	Binomial Model
11	Green REIT plc	Based on a performance fee payable to an Investment manager
12	Greencore Group plc	Trinomial Valuation Model which is a lattice option-pricing model
13	Hibernia REIT plc	Based on share price
14	IFG Group plc	Black-Scholes Model
15	Independent News and Media plc	Black-Scholes Model
16	Irish Continental Group plc	Binomial Model
17	Irish Residential Properties REIT plc	Black-Scholes Model
18	Kenmare Resources plc	Black-Scholes Model and Monte Carlo Simulation Model
19	Kerry Group plc	Monte Carlo Simulation Model
20	Kingspan Group plc	Black-Scholes Model and Monte Carlo Pricing Model
21	Mainstay Medical International plc	Black-Scholes Model
22	Paddy Power Betfair plc	Black-Scholes Model
23	Permanent TSB Group Holdings plc	Black-Scholes Model
24	Ryanair Holdings plc	Binomial Lattice Model
25	Smurfit Kappa Group plc	Monte Carlo Simulation Model
26	UDG Healthcare plc	Black-Scholes Model and Monte Carlo Simulation Model

It is interesting to note that 12 issuers use the Black-Scholes model to calculate the fair value of the share options granted while the Monte Carlo Simulation model and Binomial Model were used by 10 and 5 issuers respectively. It was also noted from the survey that some issuers who have more than one share option scheme may use a different option pricing model for each scheme. For example, five issuers disclosed the use of two option pricing models.

*(3) Disclosure of inputs into the option pricing model*

Paragraph 47(a) of IFRS 2 requires the disclosure of inputs into the option pricing model and states that:

*“If an entity has measured the fair value of good and services received as consideration for equity instruments of the entity indirectly, by reference to the fair value of the equity instruments granted, to give effect to the principle in paragraph 46, the entity shall disclose at least the following:*

- (a) for share options granted during the period, the weighted average fair value of those options at the measurement date and information on how that fair value was measured, including:*
  - (i) the option pricing model used and the inputs to that model, including the weighted average share price, exercise price, expected volatility, option life, expected dividends, the risk-free interest rate and any other inputs to the model, including the method used and the assumptions made to incorporate the effects of expected early exercise;*
  - (ii) how expected volatility was determined, including an explanation of the extent to which expected volatility was based on historical volatility; ...”*

A number of issuers did not disclose the information required under IFRS 2.47(a) for immaterial equity settled share-based schemes. With regard to the material schemes, it is noted that:

- (a) a number of issuers made just one award of instruments during the reporting period. In these instances, issuers disclosed the actual fair value of the awards granted. Other issuers granted a number of awards during the reporting period and disclosed the fair value of each grant of instruments rather than the weighted average fair value. However, one issuer did not disclose the weighted average fair value/actual fair value of awards which were granted during its reporting period; and*
- (b) three issuers did not disclose how expected volatility was determined.*

*(4) Number and weighted average exercise prices*  
IFRS 2.45(b) to (d) states that:

*“To give effect to the principle in paragraph 44 the entity shall disclose at least the following:*

*...*

- (b) the number and weighted average exercise prices of share options for each of the following groups of options:*
  - (i) outstanding at the beginning of the period;*
  - (ii) granted during the period;*
  - (iii) forfeited during the period;*
  - (iv) exercised during the period;*
  - (v) expired during the period;*
  - (vi) outstanding at the end of the period; and*
  - (vii) exercisable at the end of the period.*
- (c) for share options exercised during the period, the weighted average share price at the date of exercise. If options were exercised on a regular basis throughout the period, the entity may instead disclose the weighted average share price during the period.*
- (d) for share options outstanding at the end of the period, the range of exercise prices and weighted average remaining contractual life ...”*

Again, certain issuers did not disclose the information required under IFRS 2.45(b) to (d) for immaterial equity settled share-based schemes. With regard to the material schemes, it is noted that:

- (a) two issuers did not disclose all the information required by IFRS 2.45(b);
- (b) all issuers who had share options exercised during the financial year, disclosed the information required by IFRS 2.45(c); and
- (c) four issuers did not disclose the weighted average remaining contractual life of the share options that were outstanding at their respective year ends and one issuer did not disclose the range of exercise prices at the end of its reporting period.

*(5) Save as you earn schemes (SAYE)*

It is interesting to note that the following issuers would appear to have SAYE schemes. These schemes encourage eligible employees to save in order to buy shares and become shareholders in the issuer:

- (a) Greencore Group plc;
- (b) CRH plc;
- (c) Grafton Group plc; and
- (d) Paddy Power Betfair plc

*(6) Issuers with no share-based payment charge/credit recognised in their most recent financial reports*

The following issuers had no share-based payment charge/credit included in their most recent financial reports:

- (a) Bank of Ireland;
- (b) Permanent TSB Group Holdings plc;
- (c) Allied Irish Banks plc; and
- (d) Aminex plc.

## **4. Conclusions**

It is IAASA's expectation that Boards and Audit Committees will continue to carefully assess and consider the disclosure requirements of IFRS 2 *Share-based Payment* and ensure that all relevant information is disclosed in financial statements.



## Issuers included in this survey

The issuers falling under IAASA's financial reporting examination remit which were selected for inclusion in this share-based payments survey are listed below.

No.	Issuer	Reporting date
1	Allied Irish Banks plc <sup>3</sup>	31 December 2015
2	Aryzta AG	31 July 2015
3	Aminex plc	31 December 2015
4	Bank of Ireland	31 December 2015
5	C&C Group plc	29 February 2016
6	Cairn Homes plc	31 December 2015
7	CRH plc	31 December 2015
8	Datalex plc	31 December 2015
9	DCC plc	31 March 2016
10	FBD Holdings plc	31 December 2015
11	Glanbia plc	2 January 2016
12	Grafton Group plc	31 December 2015
13	Green REIT plc	30 June 2015
14	Greencore Group plc	25 September 2015
15	Hibernia REIT plc	31 March 2016
16	IFG Group plc	31 December 2015
17	Independent News and Media plc	31 December 2015
18	Irish Continental Group plc	31 December 2015
19	Irish Residential Properties REIT plc	31 December 2015
20	Kenmare Resources plc	31 December 2015
21	Kerry Group plc	31 December 2015
22	Kingspan Group plc	31 December 2015
23	Mainstay Medical International plc	31 December 2015
24	Paddy Power Betfair plc	31 December 2015
25	Permanent TSB Group Holdings plc	31 December 2015
26	Ryanair Holdings plc	31 March 2015
27	Smurfit Kappa Group plc	31 December 2015
28	UDG Healthcare plc	30 September 2015

<sup>3</sup> Allied Irish Banks plc is a debt issuer