

Share plan financing



Over many years, share plans have become an increasingly important way of delivering remuneration to employees at all levels. As share plans have grown, companies have found it necessary to focus on their costs: accounting, cash, dilutive and “lost opportunity”. Following the introduction of IFRS 2 (“Share-based Payment”) in 2005, there became a natural tendency to focus primarily on the accounting costs. However the cash costs of purchasing shares and the dilutive and opportunity costs of issuing shares are of at least equal significance. As share plans continue to grow it has therefore become key for companies to carefully examine their share plan financing strategies to ensure they remain fit for purpose, as illustrated below.

An effective share plan financing strategy should determine:

- The available sources of shares (new issue/ market purchase/treasury).
- Whether and how the costs should be hedged (internally or via a third party).
- How each grant of awards should be settled.
- Whether awards are being settled in the most efficient manner.

Your company wants to make awards over shares worth a total of 1% of market capitalisation. These will be settled using market-purchased shares, which you currently intend to buy shortly before the settlement date.

What if the share price doubles before the awards are settled – the cash required to settle these awards will be 2% of your market capitalisation today. What can be done to better control this cash cost?

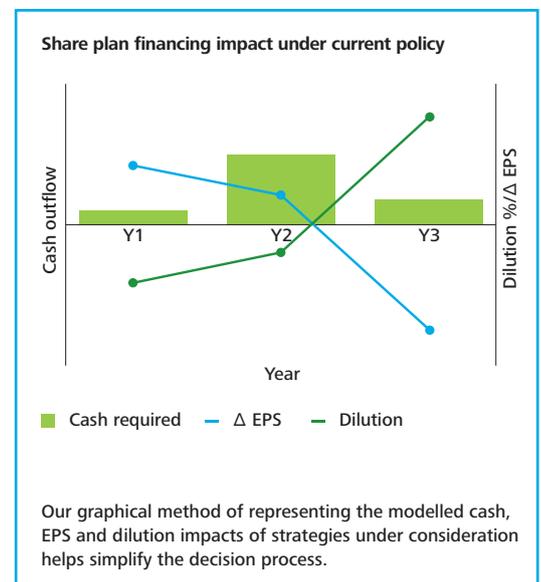
Your company settles all of its awards using newly issued shares. However, you realise upon looking at your historic grant data that you are fast approaching the dilution limit stipulated in your plan rules.

Do you have a plan in place to help you manage this situation?

The process we follow when taking companies through a full review of their share plan financing strategy is shown overleaf. Whilst this shows a typical end-to-end process, we can also support companies on an ad-hoc basis, should assistance be required for specific parts of the review process.

Our graphical method of representing the modelled cash, EPS and dilution impacts of strategies under consideration helps simplify the decision process.

This is where Deloitte can provide expertise and experience. We can support you in ensuring that you have the optimum strategy in place for managing both the cash cost and dilution risks associated with running equity-based plans. We can also support you in setting up the internal governance processes required to ensure your strategy is maintained and reviewed.



The review process

	What does this involve?	How can this help you?
	<p>Analysis</p> <p>An analysis of current share plan financing arrangements, including:</p> <ul style="list-style-type: none"> • Identifying current processes & policy. • Identifying the KPIs by which the strategy is/should be measured. • Modelling of outcomes of various share price scenarios. • Outline of potential impact of alternative approaches. 	<p>Aggregate what is often disparate data to give a complete picture.</p> <p>Provides an opportunity for the company to review the status quo.</p>
	<p>Decision</p> <p>Company determines whether current approach is already optimal or whether further design work should be undertaken to determine the best approach to take forward.</p>	<p>Good governance to critically evaluate the company's existing approach at regular intervals.</p>
	<p>Design</p> <p>If a new process and/or policy is required, we apply an analytical approach to arrive at the optimum strategy. Potential approaches will be detailed, with possible impacts modelled.</p>	<p>New approach can be designed to best align with company's KPIs.</p>
	<p>Decision</p> <p>Company stakeholders collectively decide which approach should be adopted.</p>	<p>All internal stakeholders will be involved in the decision and understand their resulting ongoing responsibilities.</p>
	<p>Implementation</p> <p>Deloitte support can include:</p> <ul style="list-style-type: none"> • Drafting documents. • Process maps. • Provision of secondees. • Facilitating internal training/workshops. 	<p>Practical support – making change happen.</p> <p>Can provide support where internal resource is limited.</p>

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