

**ACCOUNTING FOR EMPLOYEE SHARE OPTIONS:  
A CRITICAL ANALYSIS**

by

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ἄνοι ἅα Ἰαχὺά ‘ἂ ὑὰ ἄαὸ .ὄαἰ ἰ ἔ ἂ ‘ἰ ἄέα Ἰἄἄἄἰ ἄἄ  
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 ‘ἂ ἄἄ ἔἔ .ἄἰ ἄḡḡἄ Ἰἂ ἄἄἄ Ἰἂἰ ἄἄἄ ἄḡḡḡ Ἰἂἄἄἄ ἄḡḡὸ ἄἄ  
 (.‘÷ ἰéἰ ἄἄ) .ἄἰḡḡἂ ἄἄ ἄ ἄἄ Ἰἂἄἄ ἰ ἂἰ

*A psalm of thanksgiving, call out to the Lord, everyone on earth. Serve the Lord with gladness, come before Him with joyous song. Know that the Lord, He is G-d, it is He who made us and we are His, His people and the sheep of His pasture. Enter His gates with thanksgiving, His courts with praise, give thanks to Him, bless His Name. For the Lord is good, His kindness endures forever, and from generation to generation is His faithfulness. (Psalm 100.)*

## CONTENTS

	Page
<b>Acknowledgements</b>	x
<b>Declaration</b>	xi
<b>Summary</b>	xii
<b>Opsomming</b>	xiii
<b>CHAPTER 1</b>	
<b>INTRODUCTION</b>	
1.1. Background to the study	1
1.2. Problem definition	2
1.3. Reasons for the research	3
1.4. Research objectives	4
1.5. Research methodology	5
1.6. Scope of the research	5
1.7. Structure of the study	7
1.8. Terminology and abbreviations used	9
1.9. Referencing	11
<b>CHAPTER 2</b>	
<b>THEORETICAL FRAMEWORK</b>	
2.1. Introduction	13
2.2. The principal-agent problem of external capital	13
2.3. Resolving the principal-agent problem using equity-based compensation	15
2.4. Empirical evidence supporting the use of equity-based compensation as a means of remuneration	17
2.5. Employee share options as a form of equity-based compensation	19
2.6. The mechanics of option contracts	19
2.6.1. Legal status of the option contract	19

Chapter 2 (continued)	Page
2.6.2. Option contracts as financial instruments	21
2.6.2.1. Call options	21
2.6.2.2. Put options	24
2.6.3. The use of option contracts in commerce	25
2.7. Traded share option contracts	26
2.8. Introduction to employee option share schemes	29
2.8.1. Eligibility terms	30
2.8.2. Number of options	30
2.8.3. Exercise price	31
2.8.4. Grant date	31
2.8.5. Vesting conditions and vesting date	31
2.8.6. Expiry date	32
2.9. Employee share option schemes in the United States of America	34
2.9.1. Introduction	34
2.9.2. Incentive Stock Option schemes (ISOs)	36
2.9.3. Nonqualified Stock Option plans (NQSOs)	39
2.10. Employee Share Option Schemes in the United Kingdom	41
2.10.1. Introduction	41
2.10.2. Company Share Option Plans (CSOPs)	42
2.10.3. Enterprise Management Incentive (EMI) option plans	44
2.10.4. Save As You Earn (SAYE) option plans	45
2.10.5. Unapproved option plans	47
2.11. Employee share option schemes in the Republic of South Africa	48
2.11.1. Introduction	48
2.11.2. Salient features of typical share option schemes	49
2.11.3. Tax structured schemes for employee share options	50
2.11.3.1. Normal share option schemes	50
2.11.3.2. Combined share option/deferred sale schemes	51
2.12. The association between employee share option grants and corporate performance	52
2.12.1. Introduction	52
2.12.2. Arguments against the use of employee share options	53

Chapter 2 (continued)	Page
2.12.3. Arguments in favour of the use of employee share options	56
2.13. Summary and conclusions	58

## **CHAPTER 3**

### **ACCOUNTING DEVELOPMENT AND THE EXPENSING DEBATE**

3.1. Introduction	60
3.2. Development of accounting for ESOs in various countries	60
3.2.1. United States of America	60
3.2.1.1. Accounting Principles Board Opinion No. 25	60
3.2.1.2. Exposure Draft No. 124 (ED E-124) – Accounting for stock-based compensation	62
3.2.1.3. Statement No. 123 (SFAS 123) – Accounting for stock-based compensation	63
3.2.2. United Kingdom	65
3.2.2.1. Urgent Issues Task Force (UITF) Abstract 10	65
3.2.2.2. Urgent Issues Task Force (UITF) Abstracts 13, 17, 25, 30 and 32	66
3.2.2.3. Financial Reporting Exposure Draft 31 (FRED 31)	67
3.2.3. Republic of South Africa	67
3.3. Development of accounting for ESOs under International Accounting Standards	68
3.4. Introduction to the expensing debate	70
3.5. Arguments against expensing ESOs	72
3.5.1. The cost of outstanding share options is already reflected adequately in the diluted earnings per share number	72
3.5.2. Share options do not meet the definition of an expense	75
3.5.3. The issue of employee share options is a capital transaction which entity is not a party to	77
3.5.4. The cost of employee share options cannot be estimated reliably	78
3.5.5. Share option costs are already available in the notes to the financial statements	71

Chapter 3 (continued)	Page
3.5.6. Expensing share options will hurt young businesses and will have severe economic consequences	82
3.5.7. Treat the cause of the malady rather than the symptoms	83
3.6. Arguments in favour of expensing ESOs	85
3.6.1. The cost of employee share options represents an expense	85
3.6.2. Employee share options do meet the definition of an expense	87
3.6.3. The current accounting treatment has adverse economic consequences and overstates earnings	88
3.6.4. The issue of share options is not a capital transaction	91
3.6.5. The cost of employee share options is not recognised in earnings per share	92
3.6.6. Disclosure alternative is not a substitute for recognition	93
3.6.7. The argument that the cost of employee share options cannot be estimated reliably is weak	97
3.6.8. The argument that expensing employee share options will have adverse economic consequences is unfounded	99
3.7. Summary and conclusions	102

## **CHAPTER 4**

### **MEASUREMENT AND RECOGNITION OF EMPLOYEE SHARE OPTIONS**

4.1. Introduction	106
4.2. Option-pricing models for traded share options	106
4.2.1. Introduction	106
4.2.2. Factors affecting call option prices from the option holder's perspective	107
4.2.3. The Black-Scholes option-pricing model	108
4.2.4. The Cox-Ross-Rubenstein binomial option-pricing model	111
4.3. Possible measurement approaches for ESOs	112
4.3.1. Introduction	112
4.3.2. Historical cost method	113
4.3.3. Intrinsic value method	114

Chapter 4 (continued)	Page
4.3.4. Minimum value method	115
4.3.5. Fair value method	116
4.4. Methods to determine the fair value of an ESO	117
4.4.1. Introduction	117
4.4.2. Option-pricing models	117
4.4.2.1. Differences between traded options and employee share options	117
4.4.2.2. Justification for the use of option-pricing models for valuing ESOs	120
4.4.2.3. Option-pricing models for valuing ESOs	121
4.4.3. Other valuation approaches	132
4.5. Possible measurement dates for accounting for ESOs	133
4.5.1. Introduction	133
4.5.2. Vesting date	134
4.5.3. Service date	135
4.5.4. Grant date	137
4.5.5. Exercise date	138
4.6. Classification of ESOs on the accounting equation	139
4.6.1. Introduction	139
4.6.2. Arguments in favour of equity classification	139
4.6.3. Arguments in favour of liability classification	141
4.6.4. Arguments in favour of contingent claim classification	144
4.7. Allocation over the service period	145
4.7.1. Introduction	145
4.7.2. APB 25	146
4.7.2.1. Accounting for fixed plans under APB 25	147
4.7.2.2. Accounting for variable plans under APB 25	147
4.7.3. SFAS 123	148
4.7.4. ED E-124	153
4.7.5. G4+1 Paper	156
4.7.6. ED 2	160
4.7.7. Exercise date accounting	164
4.8. Summary and conclusions	169

<b>CHAPTER 5</b>		<b>Page</b>
<b>FURTHER ACCOUNTING ASPECTS OF EMPLOYEE SHARE OPTIONS</b>		
5.1.	Introduction	180
5.2.	ESOs with a cash-settlement alternative	180
5.2.1.	Introduction	180
5.2.2.	SFAS 123 and ED E-124	181
5.2.3.	G4+1 Paper	185
5.2.4.	ED 2	187
5.2.5.	APB 25	190
5.3.	Accounting for the reload feature of an ESO	191
5.3.1.	Introduction	191
5.3.2.	SFAS 123 and ED E-124	192
5.3.3.	G4+1 Paper	192
5.3.4.	ED 2	193
5.3.5.	APB 25	194
5.4.	Accounting for the modification to the terms and conditions of an ESO	194
5.4.1.	Introduction	194
5.4.2.	SFAS 123	196
5.4.3.	ED E-124	197
5.4.4.	G4+1 Paper	198
5.4.5.	ED 2	198
5.4.6.	APB 25	200
5.5.	Accounting for the deferred tax consequences of an ESO contract	202
5.5.1.	Introduction	202
5.5.2.	SFAS 123	204
5.5.3.	ED E-124	206
5.5.4.	ED 2 and the G4+1 Paper	206
5.6.	Disclosure of ESOs	207
5.6.1.	Accounting policy notes	209
5.6.2.	Share capital	209
5.6.3.	Share option plans	210
5.6.3.1.	Analysis per option plan	210



Chapter 5 (continued)	Page
5.6.3.2. Analysis of options on a total basis	212
5.6.4. Compensation expense recognised in the income statement	212
5.7. Summary and conclusions	213
 <b>CHAPTER 6</b>	
<b>SUMMARY, CONCLUSIONS AND RECOMMENDATIONS</b>	
6.1. Introduction	216
6.2. Summary of the research	216
6.3. Conclusions	222
6.4. Recommendations	227
6.4.1. Employee share option schemes in South Africa	227
6.4.2. Independence of accounting standards setting authorities	228
6.4.3. Mandating of the expensing of ESOs	228
6.4.4. Exercise date accounting should be required	228
6.4.5. Areas for further research	228
6.5. Practical implications of accounting for ESOs	230
6.6. Closing remarks	230
 <b>APPENDIX A: ILLUSTRATIVE EXAMPLE OF A FIXED OPTION PLAN</b>	 232
 <b>APPENDIX B: ILLUSTRATIVE EXAMPLE OF THE SPLIT BETWEEN THE LIABILITY AND EQUITY COMPONENTS OF A TANDEM AWARD</b>	 260
 <b>APPENDIX C: ILLUSTRATIVE EXAMPLE OF AN ESO WITH A RELOAD FEATURE USING SFAS 123</b>	 262
 <b>APPENDIX D: ILLUSTRATIVE EXAMPLE OF THE REPRICING OF AN ESO USING ED 2</b>	 266
 <b>GLOSSARY OF TECHNICAL TERMS NOT EXPLAINED IN THE BODY OF THE TEXT</b>	 269
 <b>BIBLIOGRAPHY</b>	 271

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## DECLARATION

I, Zwi Yosef Sacho, declare that **ACCOUNTING FOR EMPLOYEE SHARE OPTIONS: A CRITICAL ANALYSIS** is my own work and that all the sources that I have used or quoted have been indicated and acknowledged by means of complete references.

## **SUMMARY**

The main goal of this dissertation was to obtain an understanding as to the true economic nature of employee share options and the problems surrounding the accounting thereof.

The main conclusion of this study is that employee share options should be expensed in the income statement as and when the employee's services are performed. The reason is that employee share options are valuable financial instruments which the employer has used to compensate the employee for his services. It was also concluded that exercise date accounting and classification of outstanding employee share options as liabilities on the balance sheet is the most appropriate accounting treatment. Such accounting treatment trues up the accounting of employee share options with that of cash-settled share appreciation rights, which are economically equivalent transactions.

The measurement of employee share options should be based on their fair value using an option-pricing model adapted for the specific features of employee share options.

Title of dissertation:

### **ACCOUNTING FOR EMPLOYEE SHARE OPTIONS: A CRITICAL ANALYSIS**

Key terms:

Employee share options; option-pricing models; Black-Scholes model; Cox-Ross-Rubenstein binomial model; agency problem; moral hazard; equity-based compensation; call option; vesting conditions; exercise price; exercise date; grant date; equity; liabilities; financial instrument; reload feature.

## OPSOMMING

Die hoofdoel van hierdie verhandeling was om 'n begrip te kry van die ware ekonomiese aard van werknemeraandeleopsies en die probleme rondom die rekeningkundige hantering daarvan.

Die hoofgevolgtrekking van hierdie studie was dat werknemeraandeleopsies as 'n uitgawe in die inkomstestaat afgeskryf moet word wanneer die werknemer sy dienste lewer. Die rede is dat werknemeraandeleopsies waardevolle finansiële instrumente is wat die werkgewer gebruik het om die werknemer vir sy dienste te betaal. 'n Verdere gevolgtrekking was dat uitoefendatumrekeningkunde en die klassifikasie van uitstaande werknemeraandeleopsies as 'n verpligting op die balansstaat, die mees toepaslike rekeningkundige hantering is. Hierdie rekeningkundige hantering bring die verantwoording van werknemeraandeleopsies in lyn met dié van kontantvereffende aandelewaardestygingsregte wat in ekonomiese terme gelykwaardige transaksies is.

Die meting van werknemeraandeleopsies moet op hulle markwaarde gebaseer word, deur gebruik te maak van opsieprysmodelle wat geskik is vir die unieke kenmerke van werknemeraandeleopsies.

Titel van verhandeling:

### **DIE REKENINKUNDIGE VERANTWOORDING VAN WERKNEMERAANDELEOPSIES: 'N KRITIESE ONTLEDING**

Sleutelwoorde:

Werknemeraandeleopsies; opsieprysmodelle; Black-Scholes-model; Cox-Ross-Rubenstein-binomiaalmodel; agentskapprobleem; morelegevaar; ekwiteitsgebaseerde kompensasie; roepopsie (“opsie om te koop”); vestigdevoorwaardes; uitoefenprys; uitoefendatum; toewysingsdatum; ekwiteit; laste; finansiële instrument; herlaaikenmerk.