

## Unlocking strategic value through equity-based incentive plans

Equity-based compensations are often used by large multinational corporations as strategic tools to attract, retain and motivate top-tier employees. For start-up companies, equity options and awards offer employees a stake in the start-up's future success, aligning their interests with long-term value creation goals, while preserving cash flows during early growth stages. In some cases, equity-based awards are also offered as incentives or compensations to strategic business partners such as key customers or vendors.

Designing effective equity-based incentive plans requires a deep understanding of the complex legal, tax and accounting frameworks across jurisdictions. Besides ensuring compliance with relevant laws and regulations, corporate governance standards, and achieving tax optimisation in respective jurisdictions, the related accounting issues (e.g., under IFRS or US GAAP) are also complex and prone to misapplication and errors. We encourage companies contemplating equity-based incentive programmes to have a good understanding of the accounting implications to avoid common pitfalls and unintended outcomes upon implementation, IPO, change of control and leadership transitions.

### Key accounting considerations for equity-based compensations:

#### Valuation complexity

Equity-based awards must be measured at fair value, using models such as Black-Scholes or Monte Carlo simulations. Inappropriate assumptions (e.g., volatility, expected term) can lead to misstatements. Non-public entities will have additional challenges due to lack of market data for accurate valuation.

#### Intragroup arrangements

There are specific accounting treatments and disclosure requirements for the issuer and for group entities participating in same group programmes. Additional accounting considerations will also apply when trust vehicles are used to administer and hold equity awards.

#### Equity versus liability classification

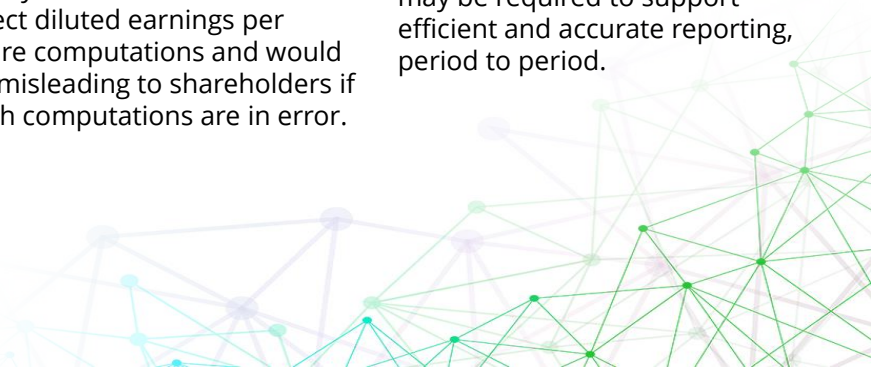
Not all equity-based compensations can be classified as equity instruments. Balance sheet ratios can be significantly impacted from a misclassification. Certain features may result in a liability classification and require fair value remeasurement every reporting period.

#### Earnings per share dilution

Equity-based awards could affect diluted earnings per share computations and would be misleading to shareholders if such computations are in error.

#### Vesting conditions, modifications, cancellations, clawbacks

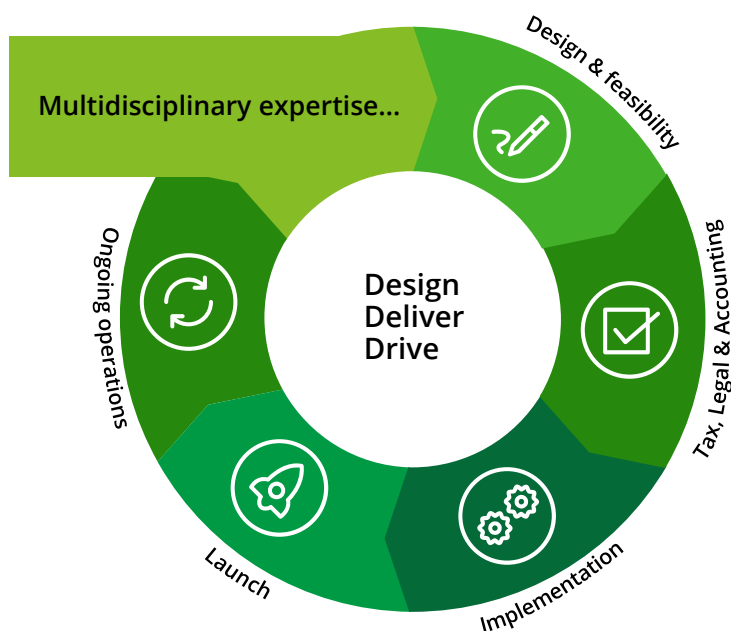
The design of vesting features, including conditions for leavers, clawbacks etc, and subsequent changes to the scheme will affect the amount and timing of expense recognition. These accounting areas are prone to errors and misapplication due to their complexity, variety of design features and circumstances. A robust tracking and accounting system may be required to support efficient and accurate reporting, period to period.



## How Deloitte can help

Our network of subject matter specialists support fast growing start-ups through to large multinationals with equity-based compensations design, governance, compliance, tax, legal, regulatory, operations, communications, accounting, and cost management of such equity-based programmes.

This multidisciplinary approach allows Deloitte to provide a breadth and depth of support from inception to implementation and throughout the ongoing operation of your equity-based incentives programmes.



### Design & feasibility

- Incentive design labs
- Development of strawmen and support with stakeholder management
- Support with administrator selection
- Global tax & legal feasibility

### Tax, Legal & Accounting

- Global tax & legal actions
- IFRS/US GAAP/local standards impact analysis, valuation modelling
- Share plan financing
- Corporate tax deductibility & global recharges
- Tax valuation considerations

### Implementation

- Operational and accounting policies/processes
- Preparation of plan documents by our Incentives Lawyers
- Pre-launch global registrations and filings
- Project management/secondments
- Developing a tailored communication strategy

### Launch

- Training and communications for local payroll/HR
- Rolling out employee and HR communications

### Ongoing operations

- GA Incentives
- Shadow payroll processing
- Ongoing tax valuation needs
- Ongoing employee communications
- Ongoing filings/non-payroll reporting
- Enhancements/adjustments feeding back into re-design
- Supporting with changes due to corporate events (IPOs, spin-outs, demergers, change of control, management buy-outs)
- Ongoing legal support
- Continuous employee/HR lifecycle communications
- Accounting computations and valuation support for periodic reporting

## Get in touch

### Sabrina Sia

Global Employer Services Partner  
Deloitte Singapore  
[ssia@deloitte.com](mailto:ssia@deloitte.com)

### Soh Lin Leng

Accounting & Reporting Advisory Partner  
Deloitte Singapore  
[lisoh@deloitte.com](mailto:lisoh@deloitte.com)

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