

IFRS 2 Requirements

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Options may be Cheap (if correctly valued)

For smaller companies

- All option models are unprovable
- Black scholes is best – tried, tested (on larger companies)
easy to use
- **BUT** need to ensure right inputs and include hedging costs

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No validated model to value smaller company share options

No market exists for the share options of smaller companies

A sophisticated model is not necessarily better than an un-sophisticated model

P&L charge = number of options X the “fair value” of an option

↓
Easy to Estimate

↓
How to value?

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Easy to Estimate

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How to value?

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Black-Scholes-Merton is best, but use the QCA-IRS Valuer

- Tried & Tested
- Validated for larger companies
- Easy to use – QCA-IRS valuer or web page



BUT you need to ensure inputs are right

BSM requires 6 inputs:

- Volatility)
- Option exercise price)
- Share price at grant date) 3 Objective
- Life of option) 3 Subjective
- Risk free interest rate)
- Dividend yield)



BSM assumes hedging costs are negligible

- Is this true for your company?
- Hedging costs can be very large



Summary

For smaller companies:

- All option models are unprovable
- Black Scholes is best – tried, tested (on larger companies)
easy to use
- **BUT** need to ensure right inputs and include hedging costs



Options may be cheap (if appropriately valued)

