Make Targets Harder

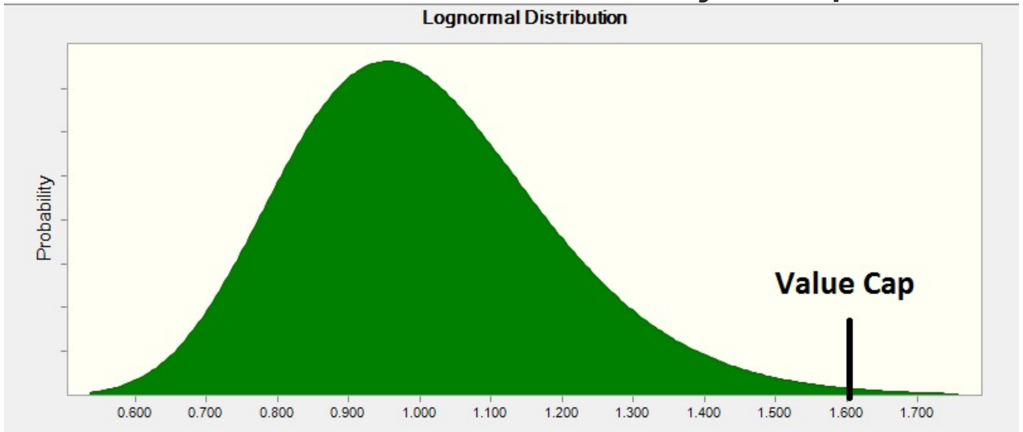
- Harder targets are less likely to be met. Thereby reducing the fair value (particularly market based conditions).
- Great way to become popular.

Holding Period Discount

- A 2 year post-vesting holding period can reduce the fair value by 8% - 15% (of shares subject to holding period).
- Requires a legally binding sales restriction.
- Might not affect some participants who have a shareholding requirement.

Value Cap

- Depending on the level the value cap is set and the company's volatility, can reduce the fair value by 5% - 20%.
- Little impact on perceived value if cap is set at a high level. Where is this level?
- More popular where external factors have major impact on share price.



Use of Underpins

- Can decrease fair value.
- Market Underpin – (TSR > 0) – value built in at date of grant. Takes a sliding scale of a smaller charge.
- Non Market Underpin – (EPS > 0) – value adjusted each reporting date. Can result in zero charge but also zero payout.
- Non Vesting Underpin – ("sufficient financial performance") - discounted for at start. But what is an appropriate %.

Withdrawals from Participant Schemes (ESPP / SAYE / Matching)

- Can take a discount at the date of grant for possibility of participants failing to save (but staying in employment), this is different from a leaver.
- 5 – 15% typically accepted for SAYE contracts.
- Can use internal information (e.g. historical data, expected share price movement).

Reduce Discount (for SAYE / ESPP)

- Will less people sign up if there's less discount? There's still no downside risk (for SAYE).
- 10% discount instead of 20% discount results in 20% less accounting charge at 30% volatility and 11% less at 50% volatility.
- Limit total shares granted under plan (with scale back).

Malus & Clawback

- Discount can be applied for malus and clawback conditions.
- What is a reasonable probability? 2 occasions in the FTSE 100 (BT Group and Barclays).
- Malus reduces the perceived value, how do we reflect that in the accounting charge?

Modify or Cancel Awards

- Cancellation – accelerate all unvested portion and charged to income statement.
- Modification – increase in fair value to be spread over remaining of vesting period.
- Cancellation and regrant allowed to be treated as modification under certain circumstances.
- Modification cheaper by the current value of the awards to be forfeited.

Amount left to be amortised	Current award value	New Award Value
100	20	100

	Charge to be amortised
Modification	180
Cancellation	200

Correlations

- When using a relative metric, accounting for positive correlation may decrease fair value.
- If using outperformance of an index, only a single correlation however if using the constituents of the index, will need a correlation matrix.

Thank You

Michael Turner
Aon
Michael.turner2@aon.com

Aleda Jevon-Denner
Investec Bank
Aleda.denner@investec.co.uk

Danie Jansen van Rensburg
Naspers and Prosus
J.JansenvanRensburg@naspers.com

Thank You

Thank you for attending **GEO's 2019 Pan European Regional Event** in Berlin. We hope you enjoyed this session.

- Two ways to give us your **feedback** on this session:

Paper surveys available at the door

Mobile app